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GOVERNMENT AND ADMINISTRATION

Ministerial Changes

Further ministerial changes have been announced. These follow the resignation of the Secretary of State for Defence, the Rt Hon Michael Heseltine, MP, in early January (see pp 3-4) and that of the Secretary of State for Trade and Industry, the Rt Hon Leon Brittan, MP, on 24 January. Mr Brittan resigned after criticism of actions taken by his Department in connection with the reconstruction of the Westland helicopter company.[1] At the same time an additional Parliamentary Under-Secretary of State has been appointed at the Northern Ireland Office. These changes complete the recent round of ministerial appointments.

New Appointments

The following appointment to the Cabinet has been made:

Secretary of State for Trade and Industry
The Rt Hon Paul Channon, MP (former Minister of State, Department of Trade and Industry)

The other appointments are:

Department of Employment

Parliamentary Under-Secretary of State
Mr Ian Lang, MP (former Lord Commissioner of HM Treasury – a Government Whip)

Northern Ireland Office

Parliamentary Under-Secretary of State
Dr Brian Mawhinney, MP

Department of Trade and Industry

Minister of State
Hon Alan Clark, MP (former Parliamentary Under-Secretary of State, Department of Employment)

Department of Transport

Parliamentary Under-Secretary of State
Mr Peter Bottomley, MP (former Parliamentary Under-Secretary of State, Department of Employment)

[1] Developments concerning the reconstruction of the Westland helicopter company are described on p 3. On 12 February a revised rescue package agreed by the Westland Board with the United Technologies Corporation (the United States parent company of Sikorsky) and Fiat of Italy, which required the support of a simple majority of shareholders' votes for its approval, was put to an extraordinary meeting of shareholders. The package received the support of just over two-thirds of the shareholders' votes.

HM Treasury

Lord Commissioner of the Treasury
Mr Michael Neubert, MP (former Assistant Whip)

Assistant Whip
Mr Gerald Malone, MP

The Cabinet

Following the new appointments, the composition of the Cabinet is as follows:

Prime Minister, First Lord of the Treasury and Minister for the Civil Service
Rt Hon Margaret Thatcher, FRS, MP

Lord President of the Council and Leader of the House of Lords
Rt Hon The Viscount Whitelaw, CH, MC

Lord Chancellor
Rt Hon The Lord Hailsham of Saint Marylebone, CH, FRS, DCL

Secretary of State for Foreign and Commonwealth Affairs and Minister of Overseas Development
Rt Hon Sir Geoffrey Howe, QC, MP

Chancellor of the Exchequer
Rt Hon Nigel Lawson, MP

Secretary of State for the Home Department
Rt Hon Douglas Hurd, CBE, MP

Secretary of State for Education and Science
Rt Hon Sir Keith Joseph, Bt, MP

Secretary of State for Energy
Rt Hon Peter Walker, MBE, MP

Secretary of State for Defence
Rt Hon George Younger, TD, MP

Secretary of State for Wales
Rt Hon Nicholas Edwards, MP

Lord Privy Seal and Leader of the House of Commons
Rt Hon John Biffen, MP

Secretary of State for Social Services
Rt Hon Norman Fowler, MP

Chancellor of the Duchy of Lancaster
Rt Hon Norman Tebbit, MP

Secretary of State for Northern Ireland
Rt Hon Tom King, MP

Minister of Agriculture, Fisheries and Food
Rt Hon Michael Jopling, MP

Secretary of State for Transport
Rt Hon Nicholas Ridley, MP

Secretary of State for Employment
Rt Hon The Lord Young of Graffham

Secretary of State for the Environment
Rt Hon Kenneth Baker, MP

Paymaster General and Minister for Employment
Rt Hon Kenneth Clarke, QC, MP

Chief Secretary to the Treasury
Rt Hon John MacGregor, OBE, MP

Secretary of State for Scotland
Rt Hon Malcolm Rifkind, MP

Secretary of State for Trade and Industry
Rt Hon Paul Channon, MP

For a full list of government ministers, see *United Kingdom Government Ministers*, COI, No 61/86.

Northern Ireland

At by-elections in Northern Ireland caused by the resignation of the members of the Unionist parties from the House of Commons in protest at the Anglo-Irish Agreement, 14 of the 15 candidates regained their seats while the fifteenth was won by the Social Democratic and Labour Party.

Orders to extend the emergency provisions in Northern Ireland for a further six months and to amend the legislation so as to reduce the number of cases tried without a jury have been approved in the House of Commons.

BY-ELECTIONS

At the by-elections held on 23 January in 15 of Northern Ireland's 17 constituencies, 14 of the 15 Unionist candidates were returned but in Newry and Armagh the Official Unionist candidate, Mr J. F. Nicholson, lost his seat to the deputy leader of the nationalist Social Democratic and Labour Party (SDLP), Mr Seamus Mallon. All except one of the Unionist candidates received more votes than at the general election in 1983 although, unlike the general election, only one of the Unionist parties put up a candidate in each constituency. In each of the four constituencies contested by the SDLP and Sinn Fein, the SDLP candidate received more votes than at the general election and the Sinn Fein fewer. (The two constituencies in which no election took place are held by the SDLP and Sinn Fein.) The average turnout of voters was 62 per cent.

Following the by-elections, the 17 Northern Ireland seats in the House of Commons are distributed among the parties as follows. The Sinn Fein member has not taken his seat.

Official Unionist	10
Democratic Unionist	3
Ulster Popular Unionist	1
Social Democratic and Labour	2
Sinn Fein	1

EMERGENCY LEGISLATION

An Order to renew the Northern Ireland (Emergency Provisions) Act 1978 for a further six months was approved after a debate in the House of Commons on 16 January (*Hansard*, Vol 89, No 38, cols 1309-31). The Act gives the police and armed forces special powers of arrest, search and seizure; provides for trial by a judge sitting alone for people accused of specific scheduled offences; and enables the Secretary of State to proscribe organisations engaging in terrorist activities. The Government intends to introduce legislation to amend the Act, as soon as the parliamentary timetable permits, along the lines indicated in its response to the review carried out by the late Sir George Baker (see p 221, 1985, and pp 7-9).

Opening the debate the Secretary of State for Northern Ireland, Mr Tom King, said that the Government was firmly committed to eradicating terrorism and was determined to pursue that aim wherever it was appropriate. Although the 54 deaths resulting from terrorist violence in 1985 were ten fewer than in the previous year the number of policemen and policewomen included in the total had not been exceeded since the present campaign of terrorism began. Twenty-three members of the Royal Ulster Constabulary and Reserve were murdered in 1985 and the first casualties in the New Year were also policemen. There was, however, a reduction of more than 18 per cent in the number of terrorist incidents but this was not a cause for complacency. He regretted that it would not be possible to allow the Act to lapse if the Government's security policies were to be carried out successfully.

Mr King said that under the Anglo-Irish Agreement the Government was looking for increased co-ordination of security activities with the Irish Republic (see pp 367-74, 1985, and p 4). As a first step a programme was being set in hand to improve co-operation between the two police forces. The Intergovernmental Conference was also looking at ways of simplifying the extradition procedures between the two countries and for mounting extra-territorial prosecutions. One of the other benefits expected from the Conference was that it would help to try to remove misunderstandings and misconceptions that may in the past have hindered the development of a better understanding of the importance of support for the security forces and better cross-community support for their activities.

Jury Trials

After the approval of the Order to renew the emergency provisions, a second Order was approved to amend a schedule to the Act to widen the discretion of the Attorney General to certify that particular cases should not be treated as scheduled offences (*Hansard*, Vol 89, No 38, cols 1333-7). This extends the range of offences which could potentially be tried before a jury and is intended to make it possible for more cases to be tried by a jury in Northern Ireland. The Order meets certain of Sir George Baker's recommendations and covers kidnapping, false imprisonment and those scheduled offences which are triable summarily or carry a maximum sentence of less than five years, except for those that are likely to be committed by people associated with terrorists. The Government regards the amendment as a 'modest step in the right direction'.

Public Order Bill

The Public Order Bill, which has received its second reading in the House of Commons, is designed to revise, codify and extend the common law offences of riot, unlawful assembly and affray; to widen the controls on demonstrations; to tighten the offence of incitement to racial hatred; and to provide additional powers to combat football hooliganism. The proposals have been drawn up in accordance with the traditional philosophy of policing in Britain, which is based on the principles of policing by co-operation with the public and with the minimum use of force, a tradition which the Government wishes to preserve.

MAIN PROVISIONS OF THE BILL

The proposals in the Bill broadly follow those set out in the White Paper *Review of Public Order Law*, published in May 1985 (see pp 175-6, 1985).

Public Order Offences

Part I of the Bill, which is drawn largely from the Law Commission report of 1983,[1] revises and codifies the common law offences in England and Wales, replacing the old offences of riot, unlawful assembly and affray with three newly defined offences of riot, violent disorder and affray.

Riot. The new offence of riot would be committed when 12 or more people used or threatened violence with a common purpose (unlike the common law offence, which requires a minimum of three people). Only those using violence would be guilty of riot. A prosecution would require the consent of the Director of Public Prosecutions and would be triable on indictment with a maximum penalty of life imprisonment, a fine or both. This would be the least commonly used public order offence, reserved only for very serious cases.

Violent disorder. The offence of violent disorder would be committed when three or more people used or threatened unlawful violence. The offence would be triable either way, that is, on conviction on indictment or on summary conviction, with a maximum penalty on indictment of five years' imprisonment and/or a fine. The proposals to make the offence triable either way would enable less serious cases to be tried more speedily in the magistrates' courts, where the maximum penalty would be six months' imprisonment and/or a fine of £2,000. The flexibility of this offence would make it particularly suitable for dealing with group violence.

Affray. The newly defined offence of affray largely embodies the common law offence of affray whereby one or more persons use or threaten violence against another. This would be triable either way with a maximum penalty of three years' imprisonment and/or a fine. Summary conviction would attract a maximum penalty of six months' imprisonment and/or a fine of £2,000. Affray would continue to be the normal charge brought in cases of fights outside public houses and clubs.

[1] *Criminal Law: Offences relating to Public Order.* HMSO, £7·65. ISBN 0 10 208584 6.

Threatening behaviour. In addition, the offence of threatening behaviour would be revised and extended to private as well as public places. It would become an offence to use threatening, abusive or insulting words or behaviour intended or likely to cause another person to fear violence or to provoke the use of violence by another person. It would be a summary offence with a maximum penalty of six months' imprisonment and/or a fine of £2,000.

Disorderly conduct. Finally, a new offence of disorderly conduct, which was proposed in the White Paper only as a possibility, would be created. Under this anyone using threatening, abusive, insulting or disorderly behaviour with reasonable cause to suspect that it would cause alarm, harassment or distress to another person would be guilty of an offence. The aim of this new offence, for which the maximum penalty would be £400, would be to catch hooligan behaviour which, while not in itself violent, nonetheless causes unnecessary misery to others, particularly vulnerable members of society such as the elderly and the victims of racial harassment.

Under new provisions of the Bill, juries in the Crown Court would be enabled to convict of a lesser offence than the one charged, except that disorderly conduct would not be available as an alternative verdict.

Processions and Demonstrations

Part II of the Bill establishes a new legal framework for the holding of processions, demonstrations and assemblies, building on the framework already provided by the Public Order Act 1936.

A new national requirement would be introduced for the organisers of marches to give seven days' notice to the police. (The requirement exists already in Scotland and there are advance notice requirements in local by-laws in parts of England and Wales.) Advance notice would enable discussions between the organisers of marches and the police to take place in good time. Organisers of marches called at short notice would only be required to give as much notice as was practicable. Any procession commonly or customarily held and funeral processions would be exempt from the requirement.

The existing powers of the police to impose conditions on marches to prevent serious public disorder would be widened to enable them also to impose conditions to prevent serious disruption or coercion. Similar criteria would apply to new powers to enable the police to impose conditions on the numbers, location and duration of static demonstrations and assemblies in the open air. As at present, any decision by the police to impose conditions would be subject to judicial review. There would be no extension of the existing power to ban marches where the police believe that imposing conditions would not be sufficient to prevent serious disorder, nor any power to ban static demonstrations. There would be no requirement for advance notice for assemblies or static demonstrations.

The Bill also proposes limited delegation within police forces of the chief constable's powers to apply for bans or impose conditions. In addition the senior police officer present at the scene of a march or demonstration would be able to impose conditions where necessary on the spot.

Incitement to Racial Hatred

Part III provides additional protection for individuals from those who incite racial hatred. The present offence of incitement by the use of threatening, abusive or insulting words or behaviour or the publication or distribution of such material *likely* to stir up racial hatred would be re-defined to cover such matter or behaviour *intended* to stir up racial hatred. A new offence of possessing such material with a view to its publication or distribution would be introduced; and the police would be given new powers to search for and seize racially inflammatory material and the courts to order its forfeiture.

Offences at Football Matches

Part IV consists mainly of measures against football hooliganism. It proposes to introduce an exclusion order scheme, giving the courts power to ban convicted hooligans from attending football matches. Anyone found guilty of a football-related offence might be subject to an exclusion order, any breach of which would be a further offence for which the offender could be sent to prison. The courts would also be given powers to order a person to be photographed to enable the police to enforce an exclusion order. Anyone defying an exclusion order would be committing an offence and might be imprisoned for one month.

Following the recommendations of Mr Justice Popplewell's report (see p 75), possession of smoke-bombs or fireworks at or on entry to a football ground would become an offence. Existing prohibition of consumption or carriage of alcohol on journeys to football matches (see pp 243-4, 1985) would be extended to minibuses.

Application of Provisions to Scotland

With the exception of the repeal of certain enactments relating to public order, Part I of the Bill does not extend to Scotland. The common law public order offences in Scotland remain unchanged pending recommendations of the Scottish Law Commission on mobbing and rioting. Part II applies to Scotland except for the requirement to give advance notice of a public procession and the provision for banning public processions where the chief officer of police believes that his powers to impose conditions would not be sufficient to prevent serious public disorder. Scotland has a separate regulatory structure for the control of marches to which certain minor changes are made by the amendments to the Civic Government (Scotland) Act 1982 contained in the Bill. Part III applies to Scotland. In Part IV the exclusion order scheme would not apply in Scotland but the further measures against football hooliganism (the new controls on alcohol and the new offence of possession of smoke-bombs at football matches) would apply in Scotland as in England and Wales.

PARLIAMENTARY DEBATE

The Bill received its second reading in the House of Commons on 13 January (*Hansard*, Vol 89, No 34, cols 794-871) by 292 votes to 201, a government majority of 91.

Government View

Opening the debate, the Home Secretary, Mr Douglas Hurd, said that the purpose of the Bill was the better protection of the public. Fifty years had elapsed since the passage of the Public Order Act 1936, and society and its habits had changed radically. Events of recent years had confirmed the need to update the framework of public order law to ensure that it was strong enough to protect the public now and in the future. The Bill did not detract from the traditional philosophy of policing, which was based on the principles of policing by co-operation with the public and the minimum use of force, a tradition which both he and the police were anxious to maintain.

Announcing some changes to the proposals contained in the White Paper, Mr Hurd told the House that while the White Paper had suggested a maximum penalty of ten years' imprisonment for the new offence of riot, the Government had decided instead to propose the retention of the present maximum sentence of life imprisonment for the new offence which would be more strictly defined and would have a higher threshold. As for the proposed new offence of disorderly conduct, Mr Hurd said that the Government had decided to abandon the requirement of proof of actual alarm, harassment or distress set out in the White Paper since that would have required the victim to give evidence in court, and it was felt that the more vulnerable victims were most unlikely to be prepared to face their persecutors. It had also dropped the requirement that the alarm, harassment or distress be substantial, in response to criticism that this would present the court with an impossible measurement task. [On 18 February the Government agreed to give further consideration to this clause of the Bill.]

The response to the White Paper had convinced the Government that it must act to provide the police with more effective powers to protect the public against hooligan behaviour. But it had no desire to use the criminal law to enforce a particular social standard or to worsen relations between young people and the police. The proposed law was against hooliganism, not against high spirits.

In establishing a new legal framework for processions, demonstrations and assemblies, the Government wanted to ensure that the right to protest, to march and to picket peacefully was regulated only to the extent necessary to preserve order and to protect the rights of others. It had therefore concentrated on trying to ensure that the law provided the police with adequate powers to prevent and deal with violence and disorder, while freedom of speech and the right to protest continued to be safeguarded. As regards the proposed requirement of advance notice of marches, the Home Secretary said that the vast majority of march organisers already gave notice to the police, and it was absurd that the police should have to rely on chance and rumour to learn about marches organised by a minority of irresponsible groups, which could give rise to violence and serious disorder.

On the proposed new powers to impose conditions on open-air assemblies, Mr Hurd said that where a rally threatened serious public disorder, the police would in future be able to relocate it. Where demonstrators set out deliberately to be obstructive, the police would have the power to take preventive action. Existing powers enabled the police to take action when trouble was imminent and when it had begun; it

seemed sensible that they should have a preventive power to enable them to negotiate reasonable ground rules that would prevent trouble happening at all. The right of peaceful picketing would not be infringed.

Opposition Views

Mr Gerald Kaufman, chief official Opposition spokesman on home affairs, said that the Bill contained no proposals likely to be effective in preventing disorder, and would divert scarce police resources from fighting crime while at the same time seriously undermining traditional civil liberties. He said that public order offences were only a very small fraction of the crimes committed in Britain each year. The new offences of riot, violent disorder and affray were defined far too widely, while the new offence of disorderly conduct was fraught with the most serious dangers by its breadth of scope and lack of clarity. He objected to the Bill's repudiation of the safeguard proposed in the White Paper that the behaviour must actually cause someone to feel alarmed, harassed or distressed (not that it was merely likely to do so). The proposed creation of exclusion orders was impractical and he considered the proposed limitations on the right to peaceful assembly, whether marches or open-air gatherings, to be dangerous. It was unfair to the police to force on to them responsibility for imposing conditions that rested on political judgments. The conditions in the Bill allowed the police to impose on marches what could, in effect, amount to a ban by the police rather than by an elected authority.

Mr Robert Maclennan, for the Social Democratic Party, said that the proposed changes were neither necessary nor desirable. The common law powers, in particular the breach of the peace powers, available to the police had worked relatively well, and there was not the same pressing need for an extension of the controls contained in the present Public Order Act as there was perceived to be in 1936. The Government had not only extended the controls to static assembly, but they had changed the grounds on which the police might exercise controls on marches. The scope of the Public Order Act 1936 had been widened unnecessarily. It was no longer confined to circumstances where the police believed there would be serious risk of public disorder. As regards the Bill's departure from the White Paper's definition of the new offence of disorderly conduct, he found it especially disturbing that the police would not be required to produce in court the person alleged to have been alarmed.

Lord Roskill's Report on Fraud Trials

The report of the Committee on Fraud Trials, which was set up in 1983 to consider ways of improving the conduct of criminal proceedings in England and Wales arising from fraud, was published on 10 January. The report's recommendations include the abolition of trial by judge and jury in favour of trial by a tribunal composed of a judge and two skilled lay members for complex fraud trials; the ending of the defendant's right of peremptory challenge of jurors in fraud cases; and substantial revision of the rules of evidence. The report has been welcomed by the Government and urgent consideration of its recommendations has been promised.

Main Recommendations

Among a total of 112 recommendations, the report[1] calls for the following changes:

substantial revision of the rules of evidence in order to deal with the international criminal and the deliberate obstructionist;

for complex fraud trials, the replacement of trial by judge and jury with trial by a tribunal (the Fraud Trials Tribunal) composed of a judge and two skilled lay members with the appropriate qualifications;

the abolition of the defendant's right of peremptory challenge of jurors in fraud cases and of the equivalent right of the prosecution of asking a potential juror to stand down;

the abolition of full committal proceedings in serious fraud cases;

a requirement that the defence should disclose the outline of its case in advance of the trial;

the setting up of an independent monitoring body (the Fraud Commission) to study the efficiency with which fraud cases are conducted;

the appointment of 'case controllers' to control cases of serious fraud from discovery through to verdict;

examination by an appropriate law reform body of the need to change the law so as to simplify the charges, and to facilitate proof of fraud;

examination of the need for a new unified organisation to undertake the investigation and prosecution of fraud, at present carried out by the police, the Director of Public Prosecutions, the Department of Trade and Industry and other agencies.

Government View

In a statement in the House of Commons on 14 January (*Hansard*, Vol 89, No 35, cols 927–36), the Home Secretary, Mr Douglas Hurd, said that the report dealt with a serious and urgent problem, and would provide an excellent basis for early legislation to achieve substantial reforms of the law and also for new administrative measures in areas where legislation was not required. The Government accepted the report's recommendations for an examination of the need for a new, unified organisation for investigating and prosecuting fraud; for the expansion of resources devoted to the pursuit of fraud; and for the need for changes in the law to simplify the charges and to facilitate proof of fraud, and would be taking the appropriate steps. Extra staff were already being appointed and the agency and self-regulatory organisations to be set up under the Financial Services Bill (see p 51) would have their own resources for the investigation of fraud.

The Home Secretary said that the Government would have urgent consultations on the Committee's recommendations on juries and would listen with

[1] *The Report of the Fraud Trials Committee*. Chairman: The Rt Hon The Lord Roskill. HMSO, £9. ISBN 0 11 380008 8.

interest to the views expressed in Parliament and to general public comment. Some of the Committee's recommendations might well be applicable in other sectors of the criminal law besides fraud. The report would be immensely helpful in shaping the Government's continuing fight against the insidious menace of fraud.

Shorter Note

METROPOLITAN POLICE: STRATEGY FOR 1986

The Commissioner of the Metropolitan Police, Sir Kenneth Newman, has outlined his strategy for the coming year. The aim of the force in 1986 will be to improve the quality of service to the public through the following initiatives:

the reduction of criminal opportunity through crime prevention, public contact, involvement and co-operation;

the enhanced detection of specific criminal offences (for example, robbery, burglary, drug misuse, racial attacks, vandalism and car-related crime) in accordance with local or centrally identified priorities;

a concerted attack on organised crime and the elimination of the consequent profits;

increased support, care and concern for victims of crime;

improved effectiveness both in the preservation of public tranquillity through closer community-police relations and in the policing of public disorder through better tactical control, communications, equipment and training.

The Commissioner has drawn attention to the continued growth, within the last year, in the number of neighbourhood watch schemes, and in the further development of community-police consultative groups.

Source: *The Strategy Report of the Commissioner of Police of the Metropolis to the Home Secretary*. Available from Public Information Department, Metropolitan Police, New Scotland Yard, Broadway, London SW1H 0BG. Unpriced.

EXTERNAL AFFAIRS AND DEFENCE

Hong Kong

The British Government's commitment to ensuring the smooth implementation of the Sino-British agreement on Hong Kong and to the preservation of the territory's economic progress and social stability was reaffirmed in an annual report on Hong Kong published in December 1985. The report describes the progress made in implementing the agreement and developments in Hong Kong in 1984-85. The Government's proposals concerning the future nationality of citizens of Hong Kong when the territory returns to the People's Republic of China in 1997 were debated in Parliament in January.

BACKGROUND

Negotiations between Britain and China began in 1982 to work out the arrangements that would maintain stability and prosperity in Hong Kong when leases held by Britain on land in the New Territories (comprising 92 per cent of the land in Hong Kong) run out in 1997 (see pp 368-74, 1984). The agreement, which took the form of a Joint Declaration, was initialled in September 1984, and provides for Hong Kong to maintain its economic system and its way of life for 50 years after it returns to China as a Special Administrative Region in July 1997. Under the agreement, Hong Kong will be able to enjoy a high degree of autonomy, including independent finances, and will be invested with executive, legislative and independent judicial power. Laws currently in force in Hong Kong and its social and economic systems will remain basically unchanged. Freedoms of the person, speech, the press, assembly, association, travel and movement will be ensured by law, and private property and ownership of enterprises and foreign investment will be protected. Its status as a free port, as a separate customs territory and an international financial centre is to be retained. The new autonomous region will also be able to maintain mutually beneficial economic relations with Britain and other countries, to develop economic and cultural relations and to conclude relevant agreements with states, regions and international organisations.

To ensure a smooth transfer of government in 1997, Britain and China also agreed to establish a joint liaison group in order to consult on the implementation of the agreement and exchange information. As part of the consultative process, an assessment office was set up in Hong Kong to provide the British Government and Parliament with an analysis and assessment of opinion in Hong Kong on the draft agreement, and in November 1984 the office reported that most of the people of Hong Kong found it acceptable. Following that conclusion the agreement with China was approved by the British Parliament and signed in Peking in December 1984 (see pp 437-41, 1984, and pp 16-17, 1985). Ratification of the agreement took place in Peking and London in May 1985.

ANNUAL REPORT[1]

The report contains a general survey of the main events in Hong Kong between the initialling of the draft Sino-British agreement in September 1984 to the opening of the 1985-86 session of the Legislative Council in October 1985. It covers steps taken to implement the Joint Declaration, the progress being made toward more representative government, the question of nationality (see p 39), the state of the economy, and the social and development programmes being proposed by the Hong Kong Government.

Implementation of the Joint Declaration

The joint liaison group agreed at its first meeting in London in July 1985 that Hong Kong would remain a member of the Asian Development Bank after 30 June 1997. Hong Kong's continuing participation in the General Agreement on Tariffs and Trade and in the Multi-Fibre Arrangement was also discussed. In addition, a commission was established to monitor and consult on land matters, and agreement was reached upon a number of issues concerning land transactions and on the programme for land disposal up to March 1986. A drafting committee of 59 members, including 23 from Hong Kong, was set up by the Chinese National People's Congress in order to draft the Basic Law setting out China's policies regarding the Special Administrative Region of Hong Kong. Britain has welcomed the Chinese decision to form a consultative committee in Hong Kong to reflect the views of the people in the territory during the drafting process.

Local Government Reforms

As part of the development towards a more broadly based popular participation in local government, new District Boards were established throughout Hong Kong in 1982. These are mainly advisory bodies, though they also have some responsibility for the management of district affairs. These boards originally comprised members elected by geographical constituencies, appointed unofficial members, government

[1] *Annual Report on Hong Kong 1984-85*. Cmnd 9694. HMSO, £2·30. ISBN 0 10 196940 6. During the debates in Parliament on the agreement, the British Government agreed to publish an annual report on development in the territory in the period leading up to 1997.

officials, and either urban councillors or rural committee chairmen from the New Territories. In 1984 the Hong Kong Government decided to increase the representative nature of the District Boards, the number of elected members returned at the 1985 elections growing from 132 to 237; altogether, there were 369 unofficial members on the 19 District Boards. There are no longer any official members. At the beginning of 1985 the electoral roll carried over 1·4 million names, representing nearly 50 per cent of an estimated potential electorate of 2·9 million.

Urban and Regional Councils

The Urban Council, a statutory and financially autonomous body responsible for providing services to the urban population of Hong Kong, has had elected members since soon after its inception in the 1880s. In 1973 the number of elected members was increased to 12. In 1983 the Council's membership was increased from 24 to 30, with 15 members now being elected from a widened franchise arranged on a constituency basis. The remaining members are appointed by the Governor.

In its 1984 Green Paper (see pp 292-3, 1984) the Hong Kong Government proposed the establishment of a new Regional Council for the non-urban areas in the New Territories with a view to obtaining greater public participation in the provision of services. A provisional Regional Council of appointed members and District Board representatives was established in 1985 to gain working experience. The new Council, to be constituted in April 1986, will have 36 members, of whom 12 will be elected by constituencies, 12 will be appointed by the Governor, and three will be ex-officio members (the chairman and the two vice-chairmen of the Heung Yee Kuk, which is a statutory body that represents the indigenous population of the New Territories and advises the Government on New Territories matters). The other nine will be elected from the nine District Boards in the New Territories, one elected by and from each board.

Legislative Council

Having sought and received public comments on proposals aimed at developing representative government at the central level, published in its 1984 Green Paper, the Hong Kong Government set out its proposals in a White Paper in the following November, receiving the Legislative Council's endorsement in January 1985. The main reforms concerned the composition of the Legislative Council, which enacts legislation, questions the administration on matters of public interest and debates policy issues. Its membership has been increased from 46 (excluding the Governor as President) to 56. Of these, 24 are chosen by indirect election – half by electoral colleges comprising all members of the District Boards, Urban Council and the Regional Council and half by specific functional constituencies covering the major sectors of the community (i.e. commerce, industry, medicine, law, education and trade unions); the official membership has fallen from 16 to 10 and the number of unofficial appointed members has been reduced from 30 to 22. A review has been promised in 1987 to consider whether any further changes should take place in 1988. The first elections for the reformed Council took place in September 1985, six of the 24 indirectly elected members being returned unopposed. The turn-out rate for the electoral colleges was 98·5 per cent, and for the functional constituencies nearly 58 per cent.

In 1986, public consultation will take place on recommendations stemming from a review carried out in 1985 of systems providing for redress of grievances. One possibility to be examined is the establishment of an institution to inquire independently into complaints alleging government maladministration.

Within the Civil Service the proportion of local officers holding directorate posts has reached 50 per cent, with an increasing number of local officers taking up senior positions. The Hong Kong Government is confident that its localisation policy will enable sufficient local people to be available to fill top posts in the Service before 1997.

Economic Performance

Although the Joint Declaration has removed much of the uncertainty that had hung over Hong Kong's economy during 1983 and most of 1984, the report states, its economy is still dependent on trade and hence vulnerable to uncontrollable external forces. The territory recorded a fall in its estimated growth rate from 9·4 per cent of gross domestic product in 1984 to 4·5 to 5 per cent in 1985, with a reduction of its domestic exports to the United States (the largest market for domestic exports, taking 44·5 per cent in 1984) and the European Community (18 per cent in 1984) being the notable factors. However, the growth in domestic exports to China was substantial, with China becoming the largest market for Hong Kong's re-exports as well as being the largest source of goods re-exported through Hong Kong.

Despite the fall in domestic exports, however, the labour force was effectively fully employed and earnings and private consumption expenditure showed moderate growth. The annual rate of inflation dropped to 3 per cent by the end of September 1985. Steady progress in the economy and the continued stringent control of public expenditure, the report says, were expected to result in a smaller deficit in 1985-86 than was forecast, making the return to a balanced budget in 1986-87 a realistic expectation. In the financial sector the Hong Kong Government intends to develop in 1986 further schemes for prudential supervision of banks and financial institutions.

Social Services

The Hong Kong Government is pursuing vigorously its social programmes to improve the well-being of the population. During 1984-85, public housing construction reached a record level of 48,000 flats, of which over 18,000 were for sale. In addition, about 30,000 flats were completed in the private sector.

In education the Hong Kong Government's objective is to provide by 1991 enough subsidised places for 15- and 16-year-old children in secondary schools and to satisfy the demand for post-secondary education through the provision of one-year, full-time craft courses in technical institutes and training centres, a target that will require the building of 24 new secondary schools. Other developments include plans for a third university, which would increase the number of first-year degree places from 6,300 to over 7,500 by 1994-95, and the admittance of students to the territory's second polytechnic in October 1985.

Recent development programmes highlighted in the report include the continuing improvement of communications between Hong Kong and China, in particular the opening of new road bridges to the Shenzhen Special Economic Zone. Consolidation of the four well-established new towns in the New Territories has taken place and progress is being made in the construction of others: by 1994 over 2·3 million people are expected to be housed in new towns.

Conclusion

In conclusion, the report emphasises that in the period up to 1997 the British Government will continue to fulfil its responsibilities for the territory's sound administration, to look after Hong Kong's interests internationally, to ensure the smooth implementation of the Joint Declaration and to preserve Hong Kong's economic prosperity and social stability.

NATIONALITY PROVISIONS

The Hong Kong Act 1985, which received Royal Assent in April 1985, makes provision for the ending of British sovereignty and jurisdiction over Hong Kong on 1 July 1997. In particular it empowers the British Government to give effect by an Order in Council to the provisions of the British memorandum on nationality which was one of the two memoranda exchanged by Britain and China setting out their respective positions as to the nationality status of people living in Hong Kong.

In October 1985 the British Government published a White Paper containing a draft nationality Order in Council.[1] This states that people who are British Dependent Territories (BDT) citizens by virtue of a connection with Hong Kong will lose that status on 1 July 1997 and that they will be entitled to apply before that date for a new status, known as British National (Overseas), together with a British passport recording that status. To guard against statelessness the draft Order provides that any BDT citizens who lose that status and have not acquired British National (Overseas) status on 1 July 1997 should automatically become British Overseas citizens: the children of former Hong Kong BDT citizens born on or after that date will also be British Overseas citizens at birth if otherwise stateless and the same provision will also apply to the grandchildren of former Hong Kong BDT citizens.[2]

British Government Views

Introducing the White Paper setting out the British Government's proposals to implement the nationality provisions of the Hong Kong Act 1985 (*Hansard*, Vol 89, No 37, cols 1270-9), Mr David Waddington, a Minister of State at the Home Office, told the House of Commons on 16 January that the provisions of the Order were intended to establish clearly the future citizenship of BDT citizens in Hong Kong once Hong Kong ceased to be a dependent territory on 1 July 1997: once the Order was made it would provide a stable basis on which the people of Hong Kong could plan their future with confidence.

The British Government, said Mr Waddington, had followed carefully the reaction in Hong Kong to the White Paper, the text of which had been agreed with the Hong Kong Government and the Executive Council. When the White Paper was debated by the Legislative Council in December 1985 some important points had been raised concerning assurances that the new passport would be internationally acceptable as a travel document and that its holder would enjoy the same rights of entry to other countries as those people holding BDT passports. Members of the Legislative Council had also asked that the new passport should say that the holder would not need entry clearance to enter Britain. The Legislative Council, with the support of the Hong Kong Government, had also supported the request by the non-Chinese ethnic minority in Hong Kong, and by a small number of former servicemen, that they should be granted British citizenship rather than British National(Overseas) status or British Overseas citizenship.

Statelessness

Commenting on the provisions of the Order aimed at avoiding statelessness,[1] Mr Waddington pointed out that the British Government was giving a firm undertaking that no former Hong Kong BDT citizen would remain stateless as a result of the agreement, since they would automatically become British Overseas citizens on 1 July 1997 if for any reason they had not acquired British National (Overseas) status. Mr Waddington added: 'Any of their children born after June 1997, if they would otherwise be stateless, will also acquire British Overseas citizenship at birth, and any of their grandchildren, if born stateless, will be entitled to be registered as British Overseas citizens.' Non-Chinese ethnic BDT citizens and their descendants would therefore have a recognised nationality status until well into the middle of the next century.

Right of Abode in Hong Kong

Mr Waddington said that, while the Government accepted that a continuing right of abode in Hong Kong was no less important than having a recognised nationality status, this could not be secured by holding any form of British nationality since Hong Kong would no longer be part of British territory. For this reason right of abode in Hong Kong had been safeguarded in the agreement with China; for the non-Chinese ethnic community, right of abode would be guaranteed to all those ordinarily resident in Hong Kong for seven years either before or after the establishment of the Special Administrative Region and who took it as their place of permanent residence. The same guarantee extended to their children born in Hong Kong and to anyone who had right of abode only in Hong Kong before 1 July 1997. 'In other words, the guarantee covers all the non-Chinese ethnic Hong Kong British Dependent Territories citizens except

[1] *The Nationality Provisions of the Hong Kong Act 1985*. Cmnd 9637. HMSO, £2·80. ISBN 0 10 196370 X.

[2] Under the British Nationality Act 1981, which came into force in January 1983 (see p 320, 1981) the unitary citizenship of the United Kingdom and Colonies was replaced by three new citizenships – British citizenship for people closely connected with Britain, British Dependent Territories citizenship for people connected with the dependencies, and British Overseas citizenship for those citizens of the United Kingdom and Colonies who did not acquire either of the other two citizenships. There are some 3·25 million BDT citizens in Hong Kong.

[1] During the passage of the Hong Kong Bill a number of Members of Parliament expressed concern that those BDT citizens in Hong Kong who were not ethnically Chinese could be left stateless in 1997 because they would not be regarded by China as Chinese nationals.

those who have left Hong Kong permanently and have the right of abode elsewhere.'

Referring to the concern of the Indian community in Hong Kong that the British National (Overseas) status would not in itself give them the right of abode, and about the nationality status of their descendants after the second generation and hence their request for British citizenship, Mr Waddington made it clear that the Government had not yet been persuaded that it would be right to grant British citizenship to those BDT citizens who were not ethnically Chinese. Their desire to continue to live in Hong Kong was guaranteed in the Joint Declaration, and British citizenship could not help after 1997 as this could not give them and their future generations the right of abode in a territory that was no longer British. British citizenship could be transmitted to only one generation born abroad, and the second generation had an entitlement to register as British citizens similar to the proposed entitlement to British Overseas status. 'After that there is no automatic claim to entitlement or registration as a British citizen. There is, therefore, no advantage for future generations in avoiding statelessness or securing their future in Hong Kong by conferring British citizenship on the non-Chinese ethnic community in Hong Kong.'

As to the request that some 400 former servicemen should also be granted British citizenship, Mr Waddington said that many of these were born in Hong Kong and that all their personal and family connections were there. Furthermore, the Hong Kong Act did not allow the British Government to use the Order to grant British citizenship to those BDT citizens who had another nationality and who were not at risk of becoming stateless. Nor did the Act provide a power to grant citizenship to former servicemen who were not even BDT citizens. Under the British Nationality Act, application for British citizenship could be made by those who had served under an organ of a dependent territory such as Hong Kong, but the Government was committed to use the power very sparingly and to grant British citizenship only to those who had given outstanding service.

Issue of Passports

Mr Waddington said that the British Government would begin issuing passports to British Nationals (Overseas) from 1 July 1987 when Hong Kong BDT citizens would have the choice of applying for a BDT citizen's passport valid until 30 June 1997 or for a British National (Overseas) passport valid for a full ten years. A right of abode endorsement to be placed in British National (Overseas) passports had been agreed in principle with the Chinese Government and this would effectively guarantee the right of a British National (Overseas) to return to Hong Kong; final agreement on this and related matters was expected to be reached at the March meeting of the Sino-British Liaison Group.

Referring to the proposal that an endorsement should be placed on the passport to the effect that the holder would not require entry clearance into Britain, Mr Waddington said that people arriving there had to satisfy the immigration officer that they qualified for admission under the immigration rules. The Government was, however, considering how to meet the concern expressed by members of the Hong Kong Legislative Council on this matter.

Conclusion

Mr Waddington concluded that the Government would consider whether any amendments to the Order were desirable or necessary before it was brought back to the House. 'It is right that we should act with care and deliberation, as the Order will be a key step in the implementation of the agreement.'

Constitutional Links with Australia

A Bill removing the remaining constitutional links between Britain and the states of Australia received an unopposed second reading in the House of Commons on 3 February.

Background

The Bill has been put forward at the request and with the consent of the Australian Government and Parliament. This was expressed in the Australia (Request and Consent) Act 1985, which was enacted in December 1985 by the Australian Parliament and came about as a result of legislation passed by all the Australian states in September and October 1985. Unanimous support was given to this legislation by all Australian political parties. The Queen approved the proposals in mid-1985.

The constitutional links between Britain and the Australian states have their origin in 1901 when the Commonwealth of Australia was created as a federation of what were, until then, individual British colonies. Although a number of powers and functions were conferred upon the federal Commonwealth authorities, the states retained many of their previous powers and functions, and in law, and in many other respects, their status as British colonies. Because of this status, they remained subject to certain restraints and controls from Britain which have become inappropriate with the development of Australia as an independent sovereign state. This meant, for example, that in respect of these states, the Queen when exercising her powers was formally advised by United Kingdom ministers.

The Bill

Introducing the Bill (*Hansard*, Vol 91, No 49, cols 81-92), the Parliamentary Under-Secretary of State for Foreign and Commonwealth Affairs, Mr Tim Eggar, said that it would remove the British Parliament's power to make laws for Australian states, thereby achieving the complete legislative independence of Australia from Britain. It would also remove certain powers of the Queen, exercisable on the advice of United Kingdom ministers, to disallow or to suspend the operation of state laws. The Bill also provided that when the Queen was exercising powers and functions in respect of the states, she would do so on the advice of Australian state premiers, this mirroring her position in Australian Commonwealth matters when she was advised by her Australian Commonwealth ministers. Appeals to the Privy Council from Australian state courts would also be terminated.

Concluding, Mr Eggar said that it was right that the House should agree to the request of the representatives of the Australian people since their decision to

propose changes had not been taken lightly. 'While it is true that the Bill will remove certain, largely formal, legal links, it will in no way weaken the deep practical relationship between our two countries. Moreover, it will substitute new arrangements that accurately reflect Australia's well-established status as a modern and sovereign nation.'

The Bill received the full support of the official Opposition and of the Liberal and Social Democratic parties.

Southern Africa

The policy of apartheid in South Africa was condemned by a ministerial meeting in Lusaka held in February between the 12 European Community member states and Angola, Botswana, Mozambique, Tanzania, Zambia and Zimbabwe (known as the front line states). Additional British aid of some £30 million to countries in Southern Africa was announced in January and February.

LUSAKA MEETING

The ministerial meeting was held in Lusaka on 3 and 4 February to consider the situation in Southern Africa, Britain being represented by the Foreign and Commonwealth Secretary, Sir Geoffrey Howe. After the meeting, Sir Geoffrey told a press conference on 4 February that the situation in South Africa had been at the core of the discussions, all the participants agreeing that the system of apartheid had to go soon and that it had to go in reality and not just in name. It was against these benchmarks that President Botha's latest proposals (see below) had to be judged. Although they reflected some awareness of the need for change and credit needed to be given where it was due, they fell well short of what was required. It was also necessary to see how the changes foreshadowed would be implemented in practice.

Noting that there were differences of opinion about the most effective means of sustaining pressure to end apartheid and to bring independence to Namibia and peace to the region generally, Sir Geoffrey said that it would be unpardonable to succumb to a fatalism that abandoned the solution of the region's problems to force of arms and emphasised the need to press the case for dialogue and peaceful change. This was why Britain attached such importance to the forthcoming mission of the eminent persons group established by the Commonwealth Heads of Government Meeting at Nassau (see pp 344-5, 1985) and why a British official[1] had talked to the African National Congress to convey a message of peace, to argue against violence and to press the case for dialogue. 'Britain believes in opening channels of influence, not closing them through boycotts.'

Participants at the Lusaka meeting shared a common perception that there was a choice for South Africa between a further descent into violence or reconciliation of the races. Britain, together with its Community partners, would do all in its power to see that the right choice was made.

[1]A British diplomat met representatives of the African National Congress in Lusaka on 3 February. Two days later the Congress issued a statement welcoming the talks as an important development.

The Communiqué

In their communiqué the participants stated that apartheid was a violation of fundamental human rights and called on the South African Government to dismantle the system, to end the state of emergency and to initiate a dialogue with the genuine representatives of those South Africans now excluded from the present government structure. In addition, in order to create an atmosphere of political dialogue, they called for the unconditional release of all political prisoners and detainees, including Mr Nelson Mandela, and the lifting of the ban on African political parties. Ministers welcomed the decision of the recent Commonwealth Heads of Government Meeting to create a group of eminent persons aimed at promoting a dialogue in South Africa and urged the South African Government to co-operate with the group.

Ministers stressed the importance of continuing international pressure on the South African Government to bring about the end of apartheid, the dismantling of which would significantly contribute to the peaceful co-existence of all the states in the region. In the event of these measures failing to achieve the desired results, they agreed that further action should be considered. They also condemned military acts of aggression and destabilisation perpetrated by South Africa in the region and demanded the complete withdrawal of all South African troops from Angola. In relation to Namibia, they called for an end to South Africa's illegal occupation and for the implementation of the 1978 United Nations Security Council resolution 435, and rejected attempts to delay independence by linking it to the withdrawal of Cuban troops from Angola (see pp 382-3, 1985).

President Botha's Speech

In an address to the South African Parliament on 31 January, the State President, Mr P. W. Botha, described the concept of apartheid as outdated and announced a programme of reforms including the restoration of South African citizenship to black people deprived of theirs as a result of homeland independence, a uniform identity document to replace the pass book, the removal of influx control measures applying to South African citizens, the granting of freehold property rights for black people, and the involvement of black communities in decision taking (see pp 345-7, 1985). In addition to these steps Mr Botha said that a democratic system had to be negotiated which would accommodate the legitimate political aspirations of all South African communities. Pending the creation of constitutional structures jointly to be agreed for a multi-cultural society, he said that a national statutory council would be created in which representatives of the South African Government and of the self-governing homelands, together with leaders of other black communities and interest groups, would sit, the purpose being to 'consider and advise on matters of common concern, including proposed legislation'.

On the same day the African National Congress said that President Botha's speech contained nothing new, that it was geared towards the maintenance of white

minority rule in South Africa, and that he had refused to accept that there could be no peace in Southern Africa while the apartheid system existed.

BRITISH AID TO SOUTHERN AFRICA

Additional British aid of £27 million to countries in Southern Africa was announced in January during a visit to Zimbabwe by the Minister for Overseas Development, Mr Timothy Raison. On his return to Britain, he said that just over £3 million would be given to Zambia for rural development.

Mr Raison led the British delegation to the annual meeting of the Southern African Development Conference (SADCC) in Harare on 30 and 31 January. The SADCC is a regional grouping of nine countries,[1] its aim being to promote regional development and reduce economic dependence on South Africa. Since 1981 Britain has committed £12 million for SADCC projects including the rehabilitation of the Limpopo railway line across Mozambique and an emergency road link from Malawi to Tanzania (see pp 267-8, 1985). In his speech to the Conference on 30 January Mr Raison reaffirmed Britain's continuing support for the SADCC and announced that an additional £10 million of British aid would be provided mainly for improved communications in the region. The greater part of this would go to a project to be jointly financed with other donors which would improve road and rail communications between Malawi and the port of Dar-es-Salaam in Tanzania; Britain would also finance the rehabilitation of two locomotives for Mozambique railways in Malawi railway workshops, the aim being to help increase the capacity of the rail link to the Mozambique port of Nacala. Mr Raison also confirmed that Britain intended to provide about £100 million in bilateral aid to SADCC members in the current financial year.

Further British aid of up to £7 million to Mozambique was announced by Mr Raison on 28 January. Of this, £6 million will be spent on long-term development assistance, mainly for spare parts and raw materials for light industry and vehicles, and for the maintenance of infrastructure to help rehabilitate the economy; some of the £6 million will be for technical assistance projects. The other £1 million will be spent on vehicles for transporting supplies, and on high-energy food in response to a request from the Mozambique Government for emergency help.

On 29 January Mr Raison offered the Zimbabwe Government £10 million in new British aid for development projects which will help to raise living standards among the rural population. British aid to Zimbabwe totalled £15 million in 1984 and over £17 million in 1985.

Another £3·17 million is being made available for rural development in Zambia. Announced by Mr Raison to the House of Commons on 3 February, the aid will be used to continue Britain's support for a project based at Mpika in Zambia's Northern Province which seeks to develop the essential infrastructure of the area, which covers over a million square miles and has a population of 350,000.

Shorter Note

EVACUATION FROM ADEN

In the period from 17 to 23 January nearly 1,400 people were evacuated from the People's Democratic Republic of Yemen (PDRY) by British ships working in close co-operation with French and Soviet vessels.

On 13 January factional fighting broke out in the PDRY, concentrated mainly in Aden and its hinterland. This presented grave risks to the safety of British subjects, and the British embassy, which was in the centre of heavy fighting, was closed on 17 January. After close consultations with France and the Soviet Union, it was agreed that evacuation of nationals was necessary and that, as far as possible, a co-ordinated effort should be made. In order to assist the evacuation of British citizens and those of other nationalities, the Royal Yacht, *Britannia*, then present in the area and helped by two Royal Navy vessels and a Royal Fleet Auxiliary ship, made several trips to Aden. This was the first time that the Royal Yacht had been used in an operation of this kind and for several days a Soviet liaison officer was on board to facilitate communications between the Soviet embassy and the rescue fleet. Altogether about 5,000 people were evacuated by Britain, France and the Soviet Union, the last taking 3,000, of whom almost all were Soviet nationals.

Giving details in the House of Commons on 21 January (*Hansard*, Vol 90, No 40, cols 185-9), the Foreign and Commonwealth Secretary, Sir Geoffrey Howe, said that the success of the evacuation would not have been possible without the help given by a number of governments, in particular those of Djibouti, France and the Soviet Union. It had been a remarkable demonstration of what could be achieved through close international co-operation.

[1]Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe.

ECONOMIC AND SCIENTIFIC AFFAIRS

Public Expenditure Plans

Planned public expenditure in 1986-87 and 1987-88 is at the same levels as given in the 1985 Budget, according to the White Paper on public expenditure, which was published on 15 January. Spending between 1985-86 and 1988-89 should remain broadly stable in real terms. With the economy continuing to grow, public expenditure as a proportion of gross domestic product is expected to go on falling.

The November 1985 Autumn Statement (see pp 386-90, 1985) gave the broad results for 1986-87 of the annual review of public spending. The White Paper[1] elaborates the plans for that and the following two years. Revised projections of government receipts, spending and borrowing over the medium term will be given on Budget day (18 March).

Further changes have been made in the White Paper to improve information on planned spending. There is, for example, increased analysis of the value for money being achieved. Also, this is the first White Paper to set out the plans mainly by department rather than by programme; this reflects the way in which decisions are taken and follows the presentation used in the Autumn Statement.

The plans are an integral part of the Government's medium-term financial strategy, which, the White Paper states, is bringing about a reduction in inflation and sustained economic growth. With public expenditure accounting for a falling proportion of gross domestic product (GDP), it is anticipated that the burden of taxation can be reduced, making for improved motivation, efficiency and employment.

Public Expenditure Totals

The estimated spending outturn in 1985-86 is £134,200 million. Planning totals of £139,100 million and £143,900 million have been set for 1986-87 and 1987-88 respectively. All the totals are unchanged from those given in the 1985 Budget (see p 115, 1985). The planning total for 1988-89 has been set at £148,700 million.

Trends

The estimated outturn in 1985-86 is 3·5 per cent above that in 1984-85, rather less than the expected rate of inflation and so representing a fall in real terms (which remains even after allowing for the effects of the coal industry dispute in 1984-85 – see pp 77-8, 1985). Over the three years of the plans, expenditure in real terms is expected to remain at around the 1985-86 level.

Public spending as a percentage of GDP has been falling since 1982-83. With expenditure expected to be stable in real terms over the next three years and the economy continuing to grow, the trend will be maintained. The percentage is expected to be 44·5 in 1985-86 (the lowest since 1979-80) and to fall to 41 by 1988-89 (the lowest since 1972-73).

Analysis by Department

Public expenditure by department is analysed in Table 1. The Department of Health and Social Security (DHSS), the Ministry of Defence and the Department of Education and Science are by far the largest spenders, accounting for two-thirds of the total. Key aspects of spending by some of the larger departments are summarised below.

Health and Social Security

The 1986-87 social security allocation represents 30 per cent of public spending. About half the budget will be paid to the elderly, some one-sixth to the unemployed and a similar proportion to families. The provision for later years reflects the decisions taken in the light of the recent review of social security (see pp 23-5 and 71).

Over half the allocation for health and personal social services is spent on hospitals and community health services. Continued cost savings by health authorities are expected, making possible further improvements in services.

Defence

The Government's objectives for defence are to ensure Britain's security and to maintain its freedom. Since 1978-79 the allocation for defence has more than doubled in cash terms. Spending is being switched from manpower to equipment; manpower is being used with increased effectiveness; and measures are in hand further to improve efficiency and value for money especially through increased competition in the purchase of equipment (see pp 177-85, 1985).

Education and Science

The Government aims to raise standards throughout the educational system. Most of the expenditure is incurred by local authorities. Spending plans have been increased to finance new developments in science, to strengthen university research and to provide 5,000 additional places for students of engineering and technology (see pp 393-4, 1985).

[1] *The Government's Expenditure Plans 1986-87 to 1988-89.* HM Treasury. Vol I. Cmnd 9702-I. HMSO, £4·80. ISBN 0 10 197020 X. Vol II. Cmnd 9702-II. HMSO, £20. ISBN 0 10 197021 8.

Reserve

The reserve provides a margin to meet contingencies not covered elsewhere in the plans. Some of the reserve is normally allocated to departments as plans are rolled forward and made firmer. For 1986-87 the reserve has been set at £4,500 million. This is expected to be adequate; substantial additions in spending have been allocated to departments to take into account factors such as the temporary increase in inflation in 1985. There is more uncertainty regarding the following two years and so larger reserves – at levels above those given in the 1985 Budget – are provided at this stage.

Privatisation

The aim of the privatisation programme, which is growing, is to promote wider share ownership and to raise efficiency. In accordance with international conventions, the proceeds from privatisation are subtracted from the figures for public expenditure. However, even if they were not, spending would still be expected to remain broadly constant in real terms and to continue to fall as a percentage of GDP.

Changes in the Plans

Between the time of the 1985 and 1986 White Papers planned public expenditure in 1986-87 has been raised from £136,700 million to £139,100 million. The main increases are for social security, employment, health and personal social services, education and science, and housing.

Analysis by Spending Authority

Central government is responsible for about three-quarters of public spending and local authorities for most of the remainder (see Table 2).

Central Government

Seventy per cent of central government expenditure is voted by Parliament through the annual Supply Estimates. The rest consists mainly of social security payments paid out of the National Insurance Fund. About 40 per cent of central government spending is on social security; defence and health are the two other largest components.

Local Authorities

Over 40 per cent of local authority expenditure is on education with most of the rest going on law and order, housing and other environmental services, personal social services and transport.

Current spending has continued to exceed the Government's plans. This has led to calls on the reserve and additional financing burdens especially on ratepayers (rates being local property taxes – see p 46). For 1986–87 the Government has raised the provision by £620 million to £26,700 million. Block grant pressures to deter overspending will be made more severe. Twelve English local authorities will be subject to limits on rate increases ('rate capping') while 20 new bodies (including the joint boards for fire, police and transport in metropolitan areas) will be subject to automatic control on their precepts (sums collected on behalf of an authority). The combined annual current expenditure of these two groups is about £3,500 million. The Audit Commission has estimated that efficiency gains of at least £1,000 million are possible in England and Wales. Studies on how to obtain better value for money in Scotland are also under way. The Government looks to local authorities to improve their efficiency. However, this process may take some time and there may also be overspending on certain services. These factors have been taken into account in setting the reserve for 1986-87. Local authority current spending in 1987-88 and 1988-89 has yet to be decided; figures in the White Paper are based on 1986-87 levels.

Net provision for capital spending in 1986-87 is £3,700 million compared with £3,100 million planned in 1985-86. The rise mainly reflects an increased allocation for housing renovation. In 1985-86, as in 1984-85, capital spending is expected to exceed the Government's plans.

Public Corporations

The planning total includes the external finance – borrowing and leasing plus government grants – of nationalised industries. In 1986-87 external finance is planned at £500 million after making allowance for industries to be privatised. In view of impending privatisation, no provision for external finance for subsequent years is made for the British Gas Corporation, British Airways, the British Airports Authority or the National Bus Company. External finance requirements are expected to go on declining as losses are reduced in some industries and the profitability of others is raised.

Analysis by Economic Category

By economic category, the 1986-87 planning total is made up as follows: transfers to the personal sector (mainly pensions and other social security benefits) – 35 per cent; other public sector pay – 25 per cent; purchases of goods and services from the private sector – 24 per cent; departmental running costs – 9 per cent; transfers to the corporate sector – 5 per cent; and payments overseas – 2 per cent.

Capital Spending

Since the time of the 1985 White Paper, plans for capital spending on housing renovation and roads have been increased by about £200 million a year. In each of the three years of the plans, capital spending by general government is expected to amount to some £14,500 million. Capital spending by the public sector – which includes, additionally, public corporations – is expected to be about £21,000 million a year.

Running Costs and Manpower

Pay is the main component of running costs; they also include accommodation, personnel overheads and office services. The use of running costs as a control total is an innovation which will help to improve financial management. The new system is a reflection of the Government's determination to bring down administrative costs following the manpower reductions achieved since 1979. When running costs are being controlled effectively the Government will review the need for separate control of manpower. The provision for running costs in 1986-87 is some £13,000 million of which 39 per cent is allocated to the Ministry of Defence and 13 per cent to the DHSS.

Between April 1979 and October 1985 the number of civil servants fell by some 18·5 per cent to reach 596,000. As the drive for efficiency continues, further

reductions are planned, with a target of 590,000 by April 1988.

Manpower in the armed forces is expected to fall from 336,300 in April 1985 to 331,600 in April 1987.

Although the number of National Health Service employees in Great Britain in 1984 was 6 per cent more than in 1979, measures planned by health authorities will enable manpower to be used with improved efficiency.

Some three-quarters of local authorities' current expenditure is accounted for by manpower. Authorities in Great Britain reduced their staff by about 4 per cent between June 1979 and June 1982 but the total has since remained roughly constant.

Table 1

Public Expenditure by Department

£ million

	Estimated outturn	Plans		
	1985-86	1986-87	1987-88	1988-89
Defence	18,222	18,525	18,820	18,990
Foreign and Commonwealth Office	1,887	1,959	2,010	2,080
European Community	800	650	1,150	950
Agriculture, Fisheries and Food	2,528	2,170	2,250	2,290
Trade and Industry	1,962	1,581	1,260	1,030
Energy	1,028	115	−550	−280
Employment	3,328	3,741	3,790	3,970
Transport	4,584	4,809	4,840	4,820
Environment – housing	2,742	2,752	2,830	2,880
Environment – other environmental services	3,939	3,622	3,530	3,560
Home Office	5,311	5,549	5,610	5,690
Education and Science	14,461	14,319	14,400	14,470
Arts and Libraries	723	733	740	760
Health and Social Security – health and personal social services	16,683	17,724	18,450	19,130
Health and Social Security – social security	41,221	42,932	44,400	45,900
Scotland	7,358	7,573	7,410	7,430
Wales	2,783	2,904	2,940	3,000
Northern Ireland	4,270	4,521	4,680	4,810
Chancellor's departments	1,820	2,008	2,050	2,080
Other departments	1,327	1,526	1,690	1,800
Reserve	—	4,500	6,250	8,000
Privatisation proceeds	−2,622	−4,750	−4,750	−4,750
Adjustments	−150	−400	—	—
Planning total	134,203	139,066	143,900	148,700
Percentage change on previous year	3·5	3·6	3·5	3·3

Table 2

Public Expenditure by Spending Authority

£ million

	Estimated outturn	Plans		
	1985-86	1986-87	1987-88	1988-89
Central government	98,602	102,636	105,900	108,800
Local authorities				
Current	31,243	31,518	31,650	31,650
Capital	4,027	3,680	3,800	3,930
Nationalised industries	2,193	929	70	−30
Other public corporations	910	953	990	1,030
Reserve	—	4,500	6,250	8,000
Privatisation proceeds	−2,622	−4,750	−4,750	−4,750
Adjustments	−150	−400	—	—
Planning total	134,203	139,066	143,900	148,700

Reform of Local Authority Financing

Proposals for the reform of the system of financing local authority expenditure in England, Scotland and Wales were published on 28 January. The proposals, which are designed to strengthen local democratic accountability, cover all the main sources of local authority finance – domestic rates, non-domestic rates and central government grant. New controls on local authority borrowing, capital expenditure, fees, charges and budgeting procedures are also proposed.

The proposals were published in a Green Paper[1] presented to the House of Commons by the Secretary of State for the Environment, Mr Kenneth Baker, on 28 January (*Hansard*, Vol 90, No 45, cols 797-813). Statements were also made by the Secretary of State for Scotland, Mr Malcolm Rifkind, and the Secretary of State for Wales, Mr Nicholas Edwards, on 29 January (*Hansard*, Vol 90, No 45, cols 949-60 and 964-75).

The main features of the approach outlined in the Green Paper are a national non-domestic rate, the proceeds of which would be distributed to local authorities in proportion to the number of adults in their areas; a phased replacement of domestic rates by a community charge which each authority would set and which would be paid by every adult resident in its area; and a grant system which would compensate for real differences in local authorities' needs and would provide additional help in the form of a flat-rate sum per adult.

The grant and capital control systems are administered separately in England and Wales and there is separate legislation for Scotland. While the discussion below deals mainly with England, the same general principles would apply throughout Great Britain with some variations to take account of different circumstances in Scotland and Wales. Circumstances in Scotland, including the fact that a revaluation of rateable values took place in 1985, mean that the transition to the proposed new system should be quicker and smoother than in England and Wales. The Government therefore proposes to legislate for Scotland in the 1986-87 session so that implementation can begin on 1 April 1989 and abolition of domestic rates will be completed by the end of March 1992. Northern Ireland, where the financing system is substantially different, is not covered by the Green Paper.

THE GREEN PAPER

The main body of the Green Paper presents the proposals for reform and the arguments in their favour, while a series of appendices deals with the impact and administration of the proposed new system.

The Present System

Local government spending accounts for about 27 per cent of total public expenditure.[2] This can be broken down into current expenditure (77 per cent), capital expenditure (15 per cent) and debt servicing (8 per cent). Local authorities have three main sources of finance – rates (local property taxes), central government grants and money received from charges for some services (for example, bus fares and housing rents). They can also borrow to finance capital expenditure.

Rates

There are two main tiers of authority in each area. The lower-tier authority – the district or borough council – collects rates payments, both for itself and for the higher-tier authority – the county council. After setting a budget for the coming year, a council deducts from the total the amount of grant it expects to receive from the Government, its anticipated income from other sources and any change in balances. The remainder must be collected from local ratepayers. Every property in each area has a notional rental value, known as its rateable value. The rating council calculates how much money would be raised by a rate of one penny for each pound of rateable value of the properties in its area. It divides the amount it needs to raise, both on its own account and for the higher-tier authority, by this penny rate product and arrives at the rate poundage (number of pence per pound of rateable value) which must be charged. (For example, if the council needs to raise £1,500,000 and the total rateable value is £1,000,000, the penny rate product would be £10,000 and the rate poundage would be 150p.) The rate charged to domestic properties is reduced by a domestic rate relief of 18·5p per 100p of rate poundage, which is paid by central government. This relief was instituted in 1967 to give assistance to domestic ratepayers pending the possible overhaul of the rating system after the report of the Royal Commission on Local Government which was set up in 1966. In the event, the system was not reformed.

Central Government Grant

Central government grant consists of grants for specific purposes (e.g. police grant, Urban Programme), supplementary grants (for transport and national parks expenditure) and rate support grant. Rate support grant accounts for about 80 per cent of total government grant, and of this about 7 per cent is for domestic rate relief (see above). The larger portion of rate support grant is the block grant which is used to compensate for differences in the cost of providing a standard

[1] *Paying for Local Government*. Department of the Environment, Scottish Office and Welsh Office. Cmnd 9714. HMSO, £11·20. ISBN 0 10 197140 0.

[2] Broadly speaking, functions in England and Wales are divided between county and district councils on the basis that county councils are responsible for matters requiring planning and administration over wide areas or requiring the support of substantial resources, while district councils on the whole administer functions of more local significance. (Arrangements in London and other large metropolitan areas are somewhat different.)

English and Welsh county councils are generally responsible for strategic planning, transport planning, highways, traffic regulation, education, libraries, personal social services, consumer protection, refuse disposal, police and the fire service. All district councils are responsible, for instance, for environmental health, housing, decisions on most planning applications, and refuse collection. They may also provide off-street car parks subject to the consent of the county council. Powers to carry out some functions – such as the provision of museums, art galleries and parks – are available at both levels; arrangements depend on local agreement.

In Scotland the regional and district authorities discharge local government functions in a way broadly similar to that of authorities in England and Wales. Orkney, Shetland and the Western Isles, because of their isolation from the mainland, have single, virtually all-purpose authorities.

level of service in different areas and for differences in resources. It is intended to ensure that all authorities are in a position to finance a comparable standard of service for the same rate poundage. (The grant does not, however, equalise rate bills for similar properties in different areas, since the rateable values of similar properties will differ – see p 46.)

Capital Expenditure

Each year the Government decides on the overall level of local authority capital expenditure which it believes to be compatible with the national economic interest. Each authority may spend an amount indicated by central government, together with a proportion of the proceeds of asset sales and of repayments of grants and advances made by the authority and the profits of trade undertakings. While an authority's allocation is broken down into blocks for specific purposes (housing, education, etc) the authority may transfer allocations between blocks or to other authorities. There is a limited facility to carry over into, or anticipate from, the following year's allocation. Authorities have freedom in deciding how to finance their capital expenditure, whether through borrowing, contributions from the rate fund or by other means.

Control of Local Authority Expenditure

Apart from its detailed concern with the level of local authority spending on particular services, such as education or the police, the Government is concerned with the overall level of expenditure, borrowing and taxation (rates). Local authority borrowing affects the public sector borrowing requirement, the rate of monetary growth and interest rates, while current expenditure affects the overall burden of taxation in the economy and the balance between public and private sector output.

Since its election in 1979, the Government has been concerned to contain local authority expenditure at affordable levels and has taken a number of steps towards this end. The block grant system (see above), introduced in 1981-82, was the first step towards control of current expenditure. Under the system grant is calculated so as to make up the difference between the expenditure which the Government calculates would be necessary for a particular authority to provide a standard level of service (Grant Related Expenditure – GRE) and the revenue it could raise through a common rate poundage which all authorities are assumed to levy (Grant Related Poundage – GRP). Authorities with high rateable values in their areas receive less block grant than those with low rateable values, since they receive more revenue by levying the same rate poundage. In order to control spending by authorities the total block grant paid to a particular council decreases if it spends more than its GRE, and decreases sharply at a level of spending of 10 per cent of the national average GRE per head above its GRE. If a council spends below its GRE the block grant is reduced, but by less than the amount of underspending. Some authorities may have such high rateable values or spend so far above their GRE that they receive no block grant whatsoever. There are provisions to ensure that councils do not suffer excessively large changes in grant total from year to year.

In setting GRP at the beginning of the financial year, the Government estimates what councils' actual spending is likely to be, based on past spending levels. GRP is set at a level which should ensure that the total set aside for grant is fully distributed, allowing for the fact that councils which spend significantly above or below GRE will receive less grant than would be the case if they spent at GRE. If these estimates of council spending turn out to have been inaccurate, total claims for grant will fail to match the sum set aside. In this case a procedure called 'close-ending' comes into operation, whereby GRP is adjusted retrospectively to eliminate the discrepancy. This means that councils cannot calculate accurately the grant that they will receive until the total spending of all councils is known.

Between 1981-82 and 1985-86 the Government superimposed a series of spending targets (calculated separately from GRE) on the basic block grant system. Authorities spending more than their targets forfeited grant on the basis of a fixed tariff. This system is being discontinued in 1986-87.

In 1983 the Government published a White Paper on rate reform (see pp 307-8, 1983) which rejected various proposals for alternative forms of local taxation to replace rates in favour of measures to improve the operation of the existing system. The main measure proposed was the selective limitation of rates (also known as 'rate capping') which was subsequently introduced by the Rates Act 1984 (see pp 56-7, 1984). Rate limitation allows the Secretary of State for the Environment to set a maximum for the rate poundage which a small number of the highest spending authorities can charge. (In 1983-84, 75 per cent of English local authority overspending was accounted for by 16 authorities and in 1984-85, the same percentage was accounted for by 12 authorities.)

Other Policies

The Government introduced the current system of controls on capital expenditure (described above) in 1981-82 as a result of the Local Government Planning and Land Act 1980. This act also reduced a number of detailed controls on local authorities with a view to increasing efficiency of operation and introduced new rules governing local authority direct labour organisations. The introduction of private sector competition for the provision of services was encouraged wherever possible. The Audit Commission was established to advise the local authorities in England and Wales on value for money. In addition, the Government started to reduce the overall percentage of local authority expenditure met by grant so that authorities had to consider more carefully whether extra spending was justified. (In England, for example, grant fell from 60 per cent of planned expenditure on average in 1980-81 to 49 per cent in 1984-85.)

Reasons for Reform

The Green Paper reports that the various measures for the control of expenditure have met with only modest success. The annual rate of growth of local authority expenditure in England has fallen from 3 per cent or more in the 1960s and 1970s to under 1 per cent, while in Scotland spending has been held virtually constant and in Wales has fallen by about half a per cent a year. However, this means that in Great Britain as a whole current expenditure is still growing and now represents a higher proportion of gross domestic

product than it did in 1979. Meanwhile, relations between central government and the local authorities have worsened. This has been true even of the low-spending authorities because, under the target system, the Government asked for expenditure savings from all councils based on the previous year's spending levels and councils have found it difficult to do this when they started from a spending base which was already low.

The measures enacted since 1979 were based on the assumption that, faced with the increasing cost of expenditure growth, local ratepayers would bring pressure to bear on councils for lower spending. However, only small savings have been achieved and in some cases only rate capping succeeded in restraining expenditure.

The Green Paper identifies a lack of local accountability on the part of councils as the central problem and concludes that there is a need to reform the system of local authority finance completely so as to enable electors to understand the costs of the services provided to them so that, if the costs are fairly distributed, they can make sensible choices not only about the balance between local priorities but also about the overall level of spending.

Local Accountability

Problems in three areas are identified as the main reasons for lack of local accountability.

Non-domestic Rates. Over half of the total rates income of local authorities in England comes from non-domestic rates (paid on commercial and industrial property, public utilities, schools and government buildings, etc). These ratepayers are not electors and therefore cannot influence the level of spending of the authority to which they pay rates. Less than half of the cost of any increase in spending is reflected in the rates bills of voting ratepayers.

Domestic Rates. Of the 35 million electors in England, only 18 million are directly responsible for paying domestic rates. Of these, some 3 million receive a partial rate rebate (from central government) and 3 million receive a full rate rebate (and so pay nothing directly themselves). (The proportion of domestic ratepayers receiving rebates is higher in Scotland and Wales.) Only 34 per cent of electors in England, therefore, are householders paying rates directly. While many of the 17 million electors not responsible for the payment of rates are spouses of ratepayers or pay rates indirectly (for example as part of the rent on let property) they are not billed directly and do not personally make any payment to their local authority. Adult members of ratepayers' families or households may have very little appreciation of the cost of local authority services. In addition, domestic rates take no account of the composition of households or their consumption of local government services. This was less important in the past when local government was responsible for services such as gas, water and electricity where the basic provision was related to property ownership. Today, however, most services are provided for people rather than property. (Education, for example, accounts for 46 per cent of local authority current expenditure on average.) This is a further way in which there is a poor link between those who vote and those who actually pay for services.

Grant System. Accountability is also impaired by the way in which grants are paid to local authorities. The system of close-ending and changes in the method of assessing GRE from one year to the next mean that even low-spending councils cannot be sure how much grant they will receive until after the year for which the grant is to be paid. This can lead to significant changes in the amount an authority needs to raise from rates which are unrelated to changes in their expenditure.

The system of allocating grant in such a way as to compensate authorities for variations in rateable value leads to inequity and also disguises from electors the cost of providing services. Grant is allocated so as to equalise GRP for the same level of services in different areas. Those areas with high rateable values will raise greater revenue in levying this poundage and will therefore receive less grant than those areas where rateable values are low. Rateable values of similar properties vary widely throughout the country and ratepayers in areas where rateable values are high receive much higher rate bills for the same level of services than those in low rateable value areas. This makes it difficult for ratepayers to judge whether their authorities are high-spending or low-spending. The average rates bill in Luton in 1984-85 was £366, while in Carlisle it was £233. Ratepayers in Luton might conclude from these figures that their authority was high-spending while those in Carlisle might conclude that their authority was low-spending. In fact, the reverse was true. Luton actually spent less than its GRE, while Carlisle spent more. The difference in average rates bills was caused by differences in rateable values, and was likely to have been much greater than any corresponding difference in average income.

Effects of Business Rates on Economic Activity

A further problem arises from the present nature of the non-domestic rate. For a business, the rate is an overhead cost, but one which can vary erratically from year to year and from place to place. How far the level of the non-domestic rate influences the location and viability of businesses in particular areas is a matter on which there is no firm evidence. A more general concern is the impact which high and variable rate poundages have on the overall competitiveness of industry. Higher rates will normally result in either higher prices which will reduce international competitiveness, or in reduced investment which will lead to reduced productivity which also affects competitiveness. Alternatively, if higher rates force landlords to reduce the rents of properties in order to retain tenants, there will be less incentive to develop other land for business expansion, in those areas.

Proposals for Reform

The Green Paper considers various proposals for the reform of each of the main sources of local authority finance and evaluates them both in terms of feasibility and of the extent to which they promote greater local accountability.

Non-domestic Rates

The abolition of non-domestic rates and the replacement of revenue so lost from other sources or the introduction of some form of business vote or separate

business representation on local authorities are rejected as unworkable. The Paper proposes instead a system which limits the variability of non-domestic rates by transferring to central government the power to determine the non-domestic rate poundage. The intention would be that the total yield over the whole country should remain basically unchanged as a result of the new arrangements. This could be done either by setting a national rate poundage for all authorities equal to the average of the individual rate poundages in the year prior to the adoption of the new system; or by setting a separate rate poundage for each area corresponding to the real value of the poundage in that area in the preceding year. Subsequently the poundage would be indexed to the rate of inflation. The former approach is the Government's preferred option. In either case the proceeds would be pooled and redistributed to local authorities as an equal sum for each adult in each authority. This simple system would replace the complicated equalisation of non-domestic rateable values which presently takes place through the block grant system. It is suggested that local authorities might retain the right to levy a small rate on their non-domestic rate base. This would be limited to, for example, 5 per cent of the national non-domestic rate (or national average rate if the other system were adopted). In this case centrally set poundages would be 5 per cent lower.

The last revaluation of non-domestic rateable values in England and Wales was in 1973 and no longer reflects up-to-date rental values in different parts of the country. The Inland Revenue Valuation Office has therefore been asked to start work on a revaluation of non-domestic properties with a view to preparing a new list in time for introduction on 1 April 1990.[1] In the longer term it is proposed that the non-domestic sector should be revalued at intervals of five years or so.

Local Domestic Taxes

The Green Paper rejects a local sales tax or a local income tax as possible replacements for rates. It proposes instead a 'community charge', a uniform charge payable by all adult residents of a particular local authority. Each authority would determine its own charge. This would make each local authority accountable to those who have to pay for its expenditure by giving a clear and comprehensible price signal to all electors. (Some non-electors, for example resident foreigners, would also be liable for the charge, just as they are liable for rates at present.) The electors would receive a clear signal because the new non-domestic rating system in combination with a new central grant allocation system (see below) would mean that a community charge higher in one area than another would reflect the decision of that authority to spend at a level above that required to provide a standard level of service. As with rates, there would have to be some assistance for those on low incomes. It is proposed that the charge should be introduced gradually, by reducing the rates in each area by an amount equal to the yield of a fixed community charge – say £50 in the first year – which would be increased each year. This would mean that rates would disappear more quickly in those areas which at present have low rates bills than in others, but it is thought reasonable to expect domestic rates to have been phased out completely within ten years of the introduction of the new system.

It would be necessary to introduce a register of residence. This would be separate from the voting register, both because some people not entitled to vote would be liable to the charge and because the register would, unlike the voting register, be a rolling register – people would register or deregister whenever they changed their place of residence. The cost of setting up and maintaining such a register would be offset by the elimination of the expense involved in valuing domestic property for rates.

Grants to Local Authorities

The Government is committed to the principle of evening out the amount which authorities need to spend to provide a reasonable standard of service. The proposals for the restructuring of non-domestic rates remove the need to allow for the uneven distribution of non-domestic rateable values. Similarly, since the introduction of the community charge would eliminate domestic rateable values as the basis of local domestic taxation, there would be no need to allow for variations in those values. Domestic rate relief would also no longer be necessary.

None the less, it would still be essential to compensate authorities for differences in the cost of providing a standard level of service to meet local needs. It is therefore proposed that grant from central government would have three elements: specific grants (as at present), a needs grant and a standard grant. The needs grant would represent the first call on the total amount of grant available after the deduction of specific grants. It would be distributed among authorities so as to compensate fully for differences in the assessed cost per adult of providing a reasonable standard of service – the expenditure needs assessment (similar to GRE). The amount to be paid would be fixed at the start of the year and would not be affected by what the authority actually spent (as is the case with the current block grant system) or what other authorities actually spent (as is the case under close-ending). The remainder of the total after deduction of the needs grant would be distributed as standard grant paid as a common amount per adult to all authorities. The level of standard grant would also be fixed at the start of the year. Special arrangements would be made to avoid any significant shifts of income between authorities on moving to the new system. This protection would take the form of a 'safety net' payment to relevant authorities which would be fixed in cash terms in the first year of the change-over so that its real value would progressively decline in subsequent years. Once the whole system was fully in operation these arrangements could be reviewed.

The Government is also undertaking a review of specific grants paid at present with respect to their necessity and efficiency.

Effects of the Proposals

The proposals for reform in each of the three areas are interrelated and together provide a comprehensive reform of the local government finance system which will lead to greater local accountability.

[1] Rateable values in Scotland were reassessed in 1985 and are due to be assessed again by 1990.

1 Non-domestic rates would still make the same overall contribution to aggregate local authority expenditure, but individual authorities would no longer be able to increase the rates paid by non-domestic ratepayers in their area so as to finance marginal increases in expenditure.

2 The local domestic tax arrangements would be fairer; all electors would make some contribution to the expenditure of their local authority and this contribution would be more closely related to their use of local services.

3 The grant system would be more stable and more comprehensible; the grant an authority received would no longer depend on how much it spent and there would be no grant support for marginal spending. The grant system – in combination with the new tax arrangements – would be based on equal tax bills for comparable levels of service in different areas rather than the equalisation of rate poundages, which at present causes significant disparities between the tax bills of different areas.

4 The combined effects of the tax and grant reforms would be to ensure that the full costs and benefits of increases or savings in expenditure accrued to local taxpayers since any increase in spending would be completely financed from an increased community charge. With the widening of the tax base and the much more understandable relationship between spending and tax demands this would greatly improve the accountability of local authorities to their electors.

The Effects on Local Authorities

Low-spending authorities and those with high domestic rateable values would gain extra income from the non-domestic rate and grant proposals, while high-spending authorities and those with low domestic rateable values would lose. On the basis of 1984-85 data, over two-thirds of authorities in England would be likely to gain, most of which would be in southern, eastern and central England. Those authorities likely to lose income would mostly be in northern England.

The effect of the proposals in London would be different. Although total rateable values in many London authorities are substantially above rateable values elsewhere, successive grant regimes have allowed London authorities to retain a large proportion of their resource advantages over other authorities in order to avoid excessively high rates bills. Therefore these authorities stand to gain relatively little from the abolition of domestic resource equalisation through the block grant. Many London authorities, particularly in inner London, are currently spending very significantly above the level of their GREs and thus stand to lose substantial amounts of non-domestic rate income which would be only partially offset by gains in grant.

All of these changes would, however, be somewhat modified by the safety net arrangement (see above), at least in the early stages of the change-over.

The Effects on Households and Individuals

In general, single-person households would benefit from the introduction of a community charge, while those with three or more adults would lose. For any given household type, relatively high rateable value households would benefit, while people in low rateable value households would take a bigger share of the financing of local authority services. If the changes had been taking place in 1984-85, the complete replacement of rates by a community charge would have meant that just over half of all households would have been better off and half of those losing would have lost less than £1 a week. As regards individuals, the main losers would be those (mainly young, single adults) who are not householders at present and are therefore not liable to pay rates.

During the transitional period, the Government proposes to retain a power, similar to the selective rate capping power, to prevent authorities increasing expenditure excessively.

Other Changes

The Green Paper also contains proposals for some changes in the control of local authority capital expenditure. At present control is exercised on aggregate net expenditure, that is on gross expenditure less capital receipts (for example, from the sale of property) of all authorities taken together. Capital receipts, however, fluctuate in such a way that this system is difficult to operate adequately and it is suggested that controls over gross expenditure may be more effective. Alternatively, a system of controls involving external borrowing limits would be possible and comments are invited on the relative merits of the two systems.[1]

It is proposed that authorities be given greater freedom over the level of fees and charges for some services and over which services they directly charge for and a review of charging practice has been established. The Government also proposes that the treasurers of local authorities be required to certify the legality and propriety of expenditure and taxation decisions of their authorities before the authorities could approve a budget.

OPPOSITION VIEWS

Responding to Mr Baker's presentation of the Green Paper, Dr John Cunningham, for the official Opposition, said that the Green Paper was a recognition on the Government's part that after seven years in office local authority finance was in a greater mess than ever before. He stated that the proposals outlined in the Green Paper had been rejected in the Government's White Paper on rate reform in 1983 on the grounds that they were expensive and bureaucratic to administer, bearing harshly on low income families and amounted to a tax on the right to vote. He wondered what the Government thought had changed since 1983. The proposals for a uniform business rate were a further huge centralisation of power which would undermine local democracy and accountability rather than enhance it.

Similar criticisms were made by Mr Simon Hughes, speaking for the Liberal-Social Democratic alliance parties, who asserted that the majority of ratepayers would be worse off and said that a system of local income tax would provide better accountability. Mr Baker, replying, denied that there was a tax on the right to vote. The voting and community charge registers would be completely separate.

[1]On 12 February the Government published a detailed consultation paper on its proposals for the reform of the system of control of local authority capital expenditure.

Financial Services Bill

The Financial Services Bill, which provides a new framework for the regulation of investment businesses in Britain, has received a second reading in the House of Commons.

The Bill received its second reading in the House of Commons on 14 January (*Hansard*, Vol 89, No 35, cols 940-1028) by 335 votes to 205. Based largely on the White Paper, *Financial Services in the United Kingdom*, which was published early in 1985 (see pp 41-3, 1985), it provides for the authorisation and regulation of all investment business in Britain by the Secretary of State for Trade and Industry. This minister, however, will be able to transfer the majority of his or her powers to a designated agency, whose members would be appointed jointly by the Secretary of State and the Governor of the Bank of England. It would be a condition of such a transfer of powers that the agency was considered able to exercise them in accordance with principles laid down in the Bill. The transfer of functions would also be subject to parliamentary approval.

It will be a criminal offence for anyone to engage in investment business without authorisation. The agency may authorise people to carry on investment businesses either by authorising them directly, or by recognising an organisation or professional body of which they are a member. In particular the Bill allows for authorisation through membership of 'practitioner-based self-regulatory organisations' such as already exist in certain fields of investment business (The Stock Exchange is an example). In this way the Bill seeks to allow for a maximum of self-regulation, but within a statutory framework.

All investment businesses authorised by the agency will be subject to conduct of business rules, and if these are breached the agency will have powers to intervene to protect investors, to issue public reprimands, to apply to a court to ensure the making good of losses suffered by investors as a result of a breach of the rules, and, in the last resort, to withdraw or suspend authorisation. Investment businesses will be able to appeal to a special tribunal if the agency acts in any of these ways.

The Bill also contains provisions concerning the confidentiality of information obtained under the proposed legislation, a special regime for the application of competition policy to the financial services sector, the international implications of the new framework, the special position of insurance companies, the regulation of unit trusts and other collective investment schemes, the listing of securities, offers of unlisted securities, the investigation of insider dealing and the amendment of Companies Act provisions on takeovers with regard to the rights of minority shareholders.

In putting forward the Bill the Government's objectives are as set out in Chapter 3 of the White Paper:

1 Efficiency – the financial services industry of the United Kingdom should be able to provide services to industry and commerce, private investors and government in the most efficient and economic way.

2 Competitiveness – the industry must be competitive both domestically and internationally. Regulation must stimulate competition and encourage innovation; it must be responsive to international developments and not a cover for protectionism.

3 Confidence – the system of regulation must inspire confidence in issuers and investors by ensuring that the financial services sector is, and is seen to be, a 'clean' place to do business.

4 Flexibility – the regulatory framework must be clear enough to guide but not cramp structural and other change in the industry. It must have the resilience not to be over-run by events.

GOVERNMENT VIEW

Opening the debate the then Secretary of State for Trade and Industry, Mr Leon Brittan (see p 31), said that the City of London and the financial services sector as a whole comprised one of Britain's most successful industries. It had generated overseas earnings of over £6,000 million in 1984 and provided the finance for new investment and new ventures on which the country's prosperity depended. In 1985, for example, new issues of stocks and shares on The Stock Exchange had raised £6,200 million.

If the City was to remain a leading centre – and continue to attract the savings of ordinary people – then there was no room for doubt about the integrity of its institutions, particularly with increasing competition between the financial centres of the world. And this was all the more important at a time when the City was experiencing major changes arising from the agreement between the former Secretary of State for Trade and Industry, Mr Cecil Parkinson, and the chairman of The Stock Exchange (see p 275, 1983). [Briefly, the agreement represented an out of court settlement of a case that successive governments had pursued against The Stock Exchange, on the grounds that some of its practices were restrictive and contrary to competition policy. As part of the settlement, the Exchange agreed to certain changes which the Government considered would make it more competitive; the abolition of minimum scales of commission on dealings and a widening of the rules on membership of the Exchange were the main changes.]

It was for these reasons that the Government had determined to take firm and comprehensive action to deal with financial fraud and, at the same time, establish an effective, flexible regulatory framework in which the City could operate. The Bill would take effect alongside other measures directed towards this end: the Companies Acts of 1980 and 1981 (see pp 341-3, 1979, and pp 231-3, 1981); the Insolvency Act 1985 (see pp 160-2, 1985); and the increase in staff to deal with the investigation and detection of fraud. Other evidence of the Government's determination to act against fraud was provided by the consultative paper on extradition (see p 87, 1985), the White Paper on banking supervision (see pp 11-12) and the response to the report of the committee on fraud trials (see p 35).

However, it would be wrong to suggest anything other than that the majority of people who worked in the City of London were honourable and hard-working, Mr Brittan said. While the Bill was a valuable contribution to the elimination of fraud, its primary purpose was wider – to establish a framework of regulation which would provide effective protection for investors while at the same time promoting an

efficient and competitive financial services industry in Britain. No system of regulation could remove all risks to the investor; but it was legitimate for the investor to expect that those with whom he or she did business were fit and proper persons to do so, and were subject to rules protecting investors' interests. It was to meet that expectation that the Bill was designed.

Authorisation

Under the Bill anyone who carried on investment business in Britain would require the authorisation of the Secretary of State (or, in special circumstances, exemption from that requirement). To do business without authorisation would be a criminal offence, carrying penalties of fines and imprisonment, and contracts made by the business would be unenforceable. The Secretary of State would also be able to apply to a court for an injunction to ban a person from carrying on a business without authorisation or to seek a restitution order requiring investors to be recompensed for any loss that they had suffered as a result of the improper conduct of that business. The last was a new power.

The Bill would provide, for the first time, a comprehensive definition of investments and investment businesses. It was estimated that as many as 15,000 businesses would require authorisation.

Transfer of Ministerial Functions

The Government believed that the task of regulating investment businesses could be most effectively conducted by those who had direct experience of the financial services industry and were in close touch with developments in the market. The Bill therefore enabled the Secretary of State to transfer the majority of his powers to one or more designated agencies,[1] made up of providers and users of financial services, who would have the knowledge and expertise to ensure that investors' interests were being properly looked after.

The chairman and members of the agency would be appointed jointly by the Governor of the Bank of England and the Secretary of State. However, the powers would be transferred to the agency only if the Secretary of State was satisfied that the agency's rules would adequately protect investors and were in compliance with the principles contained in the Bill and that the agency was prepared to enforce them. The transfer of functions would itself be subject to parliamentary approval. If the Secretary of State was not subsequently satisfied that the agency was continuing to meet the criteria set out in the Bill, he would, once again subject to parliamentary approval, be able to resume the powers, in part or in total. The Government believed that these arrangements would ensure the proper level of accountability of the designated agency.

Mr Brittan went on to deal with the argument put forward by some who thought that it would have been better to establish a statutory commission to regulate the financial services industry rather than an agency. Such a commission would lack the advantages of the practitioner-based system proposed by the Government, he said. Its remoteness from the market-place and lack of first-hand expertise would make it cumbersome and bureaucratic and unable to react swiftly to changing needs. Furthermore, the designated agency would be operating within and controlled by the clear statutory framework set out in the Bill.

Agency Rules

The principles with which the agency's rules would have to comply were drawn substantially from the common law of agency, Mr Brittan said. Some dealt specifically with the new potential conflicts of interest which could arise when dual capacity trading on The Stock Exchange was permitted in October 1986.[1] More generally, the principles included requirements that the rules governing investment business must promote high standards of integrity and fair dealing. The agency's rules would also have to meet the following requirements: they must impose a duty that businesses must act with due skill, care and diligence in the provision of investment services; they must make proper provision for the disclosure of interests in, and facts material to, transactions or advice, and require an authorised business to subordinate its interests to those of its clients and to act fairly between clients; they must require proper records to be kept and be open to inspection; they must ensure that there is due regard for the circumstances of clients and that provision is made for the protection of clients' money and property; and they must make the best possible provision for compensation in the event of default by an authorised business.

Accountability of Agency

There would be two measures to ensure the public accountability of the agency. First, the Bill would establish a financial services tribunal to which a business or individual would have the right to appeal against the agency's decisions. The tribunal would be chaired by a lawyer appointed by the Lord Chancellor and would have two other members, appointed by the Secretary of State for Trade and Industry, one of whom would be appointed on the grounds of relevant practical experience. The tribunal would investigate and report on the cases referred to it and the agency would be bound by its findings.

The second measure of accountability would be a requirement that the agency submit an annual report to Parliament. It could therefore be subject to debate.

Agency Powers

Once designated the agency itself would be able to authorise a fit and proper person, individual or corporate, to carry on an investment business. It would also

[1]The Government had originally envisaged that there would be two such agencies – a 'securities and investments board' and a 'marketing of investments board' (see p 42, 1985). Appointments were made to two such bodies in the first half of 1985 and they commenced operation in June of that year. On 19 December, however, it was announced that the two bodies would be merging at some future date before the Financial Services Bill became law. Consequently although the Bill provides for the possibility of more than one designated agency, it is accepted that there will only be one, as Mr Brittan's own references to 'agency' in the debate indicate.

[1]At present trading in stocks and shares on The Stock Exchange is carried out by brokers and jobbers, each of whom acts in a single capacity. The brokers act as agents for the investing public; the jobbers trade only in the market-place, with brokers, and have no direct contact with the public. From 27 October 1986, however, this system will be abolished (and other changes will be made to modernise the working of the Exchange) and traders in the market will be able to act both as agents for the public and as principals on their own accounts (dual capacity). Consequently there may be conflicts of interest as traders may compete to buy or sell the same shares on behalf either of a client or of their own firms.

have the power to suspend authorisation in the event of a breach of the rules. The regulatory powers at the disposal of the agency were designed to enable firm and speedy action to be taken to protect investors' interests. The agency would, for example, be able to investigate any authorised business; to impose restrictions on the kind of investment business done by an authorised person; to require assets to be kept in Britain; to appoint a trustee to control the assets of an authorised business; to issue a public reprimand as to a person's misconduct; to seek injunctions restraining businesses from breaching or continuing to breach a rule; to seek restitution orders for the repayment of losses suffered by investors through a breach of the rules; and to set up an ombudsman or arbitration scheme to help resolve disputes between investors and businesses without need for recourse to the courts. Such a framework of practitioner-based regulations was designed to promote the highest standards of investment business and deter fraud, Mr Brittan said. The range of the powers was as extensive as that of the Securities and Exchange Commission of the United States. In addition, the powers would be backed by the criminal law and the full range of criminal sanctions. It would be an offence to try to induce someone to enter into an investment agreement by making false or misleading statements; to engage in any course of conduct which deliberately created a false or misleading impression of the price or value of an investment; to issue an advertisement inviting people to enter into an investment agreement without authorisation; and to continue to practice investment business after the withdrawal of authorisation.

Self-regulating Organisations

Many, if not most, investment businesses would obtain authorisation by joining one of the practitioner-based self-regulating organisations which could be recognised by the agency under the terms of the Bill. Self-regulation had been shown to work well by the example of The Stock Exchange, Mr Brittan said. Self-regulation meant judgment by one's peers, not relying on people's consciences. It would work because it was in the interests of those charged with carrying it out that it was seen to work.

To qualify for recognition, a self-regulating organisation would have to satisfy the agency that its rules and procedure for enforcement provided investors with a level of protection at least equivalent to that provided by the agency. If an organisation were recognised but failed to continue to meet the criteria for recognition, the agency would have the power to apply for a court order directing the organisation to take the steps necessary to ensure compliance. Alternatively, the agency would be able to restrict the types of investment business regulated by the organisation, or remove its recognition altogether.

Some investment businesses with a wide range of activities might have to join several self-regulating organisations or even choose to be directly authorised by the agency for some of their activities.

The Position of Lloyd's

Mr Brittan reminded the House that on 10 January he had announced that an inquiry would be set up under the Lloyd's Act 1982 into the regulatory arrangements at Lloyd's. The Act had created a council at Lloyd's and provided for extensive new powers to make by-laws. The council had been engaged in setting up a far-reaching new system of regulation. However, because of genuine concern about events in certain Lloyd's syndicates – events which had occurred before the 1982 Act came into force – it was now natural to ask whether any further regulatory action with regard to Lloyd's was necessary. The inquiry would be full, independent and rigorous and would be asked to ensure that the regulatory arrangements set up at Lloyd's provided protection for the interests of members of Lloyd's comparable to that proposed for investors under the Financial Services Bill. It was intended that the report should be published in the summer.

Mr Brittan had grave doubts as to whether the Financial Services Bill was an appropriate instrument to cover Lloyd's. It was a very difficult matter to distinguish between the two aims of the Lloyd's Act: to protect the interests of Lloyd's policy-holders on the one hand, and to regulate the interests of members of Lloyd's, who provided the capital for insurance business and stood behind insurance policies, on the other. The problem was more complex than any covered in the Financial Services Bill.

Miscellaneous Provisions

Members of certain professions – accountants, solicitors and others – carried on some investment business incidental to their profession. They were already subject to the discipline of their professional bodies. The Bill would allow for those bodies to obtain recognition, subject to meeting the same standards of investor protection as required by the main regime.

The Secretary of State for Trade and Industry would be able to prevent a financial firm from a foreign country from doing business in Britain if British firms were not given access to that firm's home market equivalent to that provided by Britain. The Bill's provisions on reciprocity would extend to banking and insurance as well as to the investment sector.

The Bill recognised the importance of investment exchanges and clearing houses in facilitating investment transactions and providing investor protection, and contained provisions for their recognition.

The Bill also provided a special regime for the application of competition policy to the financial services sector, reformed the regulation of unit trusts and other collective investment schemes and brought together various provisions on public offers.

It replaced the Stock Exchange listing regulations and provided a more satisfactory framework for the implementation of the three European Community directives on listing. In particular there would be a general duty on those responsible for an issue to disclose all information reasonably required by a potential investor. If they failed to do so or supplied false information, they would be liable for damages to any investor suffering loss as a result.

The Bill gave the Secretary of State a new power to appoint inspectors to investigate possible insider dealing. The inspectors would be able to question people on oath and require papers and documents to be produced. The Bill also extended the offence of insider dealing by Crown servants to other public servants.

Government Amendments

There were three further specific provisions which the Government intended to add to the Bill during its

passage. First, in the light of comments on the consultative paper on auditors, the Government would propose amendments to enable auditors of investment businesses to have a dialogue with the supervisors of those businesses. In particular, auditors would be expected to report to supervisors when there was a public interest in disclosure – because of a suspicion of fraud, for example. Secondly, it was intended to facilitate the formation in Britain of open-ended investment companies (a variant form of an ordinary unit trust). Lastly, amendments would be moved to restrict the application of the Insurance Brokers (Registration) Act 1977 to non-investment insurance business, so as to leave room for the emergence of a new institutional structure to regulate life insurance intermediaries.

Conclusion

The Bill was complex and highly technical, but important, Mr Brittan said. Because of this it would be absurd to put it forward on a 'take it or leave it' basis. The Government would listen carefully to the views of the House, and of practitioners and investors, and would respond constructively. The balance in the Bill was sound, he believed, and would provide the financial services industry with a regulatory framework as comprehensive as it was modern and enhance the reputation and competitiveness of the City.

OPPOSITION VIEWS

Speaking for the official Opposition, Mr John Smith said that the Bill had three main defects. It was incredible, he said, that Lloyd's had been excluded from its provisions, in the light of several major scandals that had come to light in the last two or three years. The Labour Party would move amendments to bring Lloyd's within the scope of the Bill. In the second place, his party believed that only an independent statutory commission could provide the clear regulatory framework that the financial services industry needed; recent events had caused a loss of faith in the ability of some organisations to regulate themselves adequately. Finally, the Bill did not make sufficient provision for the enforcement of the law relating to fraud.

Speaking for the alliance parties, Mr Paddy Ashdown (Social Democratic Party) and Mr Ian Wrigglesworth (Liberal) both said that the proposal for a statutory agency as outlined in the Bill was broadly acceptable, but they would prefer to see it given more independence, in particular by being publicly funded. They would also propose that its membership be reviewed by a select committee of the House of Commons. The kernel of the matter, said Mr Wrigglesworth, was the balance of power between the statutory agency and the self-regulating organisations. They did not believe the government proposals to be tough enough.

Trade Policy

The year 1986 will see a decision to launch the next round of international trade negotiations within the General Agreement on Tariffs and Trade. In two speeches made in London in January, the then Secretary of State for Trade and Industry, Mr Leon Brittan, pointed out the need for a better balance in the trading system, with the elimination of exceptionally high tariffs. In an economy as large as Britain's, trade policy is one of the major determinants of competition. As open markets provide the best environment in which to build a competitive, job-creating economy, the new round is especially important for Britain.

On 16 January Mr Brittan was speaking at the annual dinner of the International Chamber of Commerce; the following day he was making a speech at the Royal Institute of International Affairs,. Chatham House.

GATT

Mr Brittan explained that this was a momentous time for the international trading system since, at the end of November 1985, agreement had been reached within the General Agreement on Tariffs and Trade (GATT) on the agenda and objectives for a new round of multilateral trade negotiations. This would be the eighth round since the GATT came into force in 1944.

Britain would be participating in the negotiations as a member state of the European Community. In the Community determined moves were being made towards the completion of its internal market by 1992 (see p 223, 1985). This objective – together with the removal of artificial restrictions on trade between member states and the creation of a truly common market – ought to influence the Community in its stance in negotiations, Mr Brittan said. The Community's importance in the world economy gave it a lead in the removal of trade restrictions and the expansion of trade.

World Trade

Drawing attention to some recent trends in world trade, Mr Brittan said that the 40 years since the end of the second world war had seen a progressive liberalisation of world trade, accompanied by an eightfold increase in the volume of trade. Since the mid-1970s, however, the rate of growth had fallen noticeably although, after 1982, there had been a sharp – but unsustainable – upturn largely as a result of the marked increase in imports into the United States. This was partly a reflection of the over-valuation of the dollar.

A prime objective, therefore, had to be a sustainable expansion in world trade which would, in turn, strengthen long-term world growth. This could be achieved only if an attempt were made to deal with the restrictions on trade which had grown since the early 1970s. These were the legacy of various economic shocks – including the oil price rises – and of government mistakes in reacting to them. Added to intensifying competition from the newly industrialising countries and Japan, the result in developed countries had been substantial losses in jobs. Governments had therefore sought safeguards – either protectionist measures or sectoral subsidies – for industries that had been hit particularly hard.

Resistance to Change

The external disruption of the 1970s had been exacerbated by what Mr Brittan termed 'sclerosis' – a demand for growth without change. The benefits of growth, including rises in wages and salaries, were increasingly taken for granted but the change and adjustment that made growth possible were encountering mounting resistance. Both external and internal developments in many countries were conspiring to hold down growth and to raise unemployment.

Governments had been too prone to act as if the demand for growth without change could be met. The 'new protectionism' was one symptom of this attitude. This took the form of non-tariff barriers to trade, 'voluntary' bilateral restraints on exports, export subsidies, sectoral restrictions and bilateral steel quotas implemented by the European Community and the United States. The main purpose of such measures was to ensure that any unemployment created by them would be borne by other countries.

The restrictive measures adopted by many industrialised countries had not attacked the basic problems but had, instead, led to a significant loss in economic efficiency. Prices to the consumer had been raised, which had led to reductions in incomes, demand, output and employment. The latest round of GATT negotiations could provide a way of reversing the process but only if the main participants were prepared to face up to some awkward questions and, in so doing, to confront some powerful domestic pressure groups.

Areas of Difficulty

Mr Brittan drew attention to a number of countries – Japan, the United States and some developing countries – and industrial sectors – agriculture, textiles and clothing, steel and services – in which there was cause for particular concern.

Japan, the world's largest exporter of manufactures, was running huge trade surpluses. The country combined very high tariffs on manufactures with very low imports of them. Japan had to 'take its place as a mature, reliable and reciprocating partner in the international trading community, offering, as well as enjoying, trading opportunities'. In 1985 Japan had announced a further series of measures to open its markets. Britain had urged that this should lead to increased scope for the export of manufactures to Japan.

The high value of the dollar had led to a severe decline in the export competitiveness of the United States. The response of many had been to advocate increased tariffs or other trade restrictions. Britain had welcomed the reaffirmation by the United States administration of the benefits of the open trading system and its deflection of certain protectionist demands. Dangers, however, remained, with some United States tariffs at a high rate. That on imports of wool fabrics, for example, was up to 49 per cent. If negotiations in the GATT to lower trade barriers were to succeed, the United States had to continue to withstand protectionist pressures and to remove existing restrictive measures.

There were some newly industrialising countries that, despite having attained a high level of industrialisation and competitiveness, still obtained, on the strength of their self-designation as developing countries, exemption under the GATT from the need to reciprocate the concessions made by developed countries. As a result, some of them, 'whose markets should offer the greatest new opportunities to British exporters', had duties on some manufactured imports of over 100 per cent. 'It is neither economically necessary, nor politically acceptable to us, that stronger developing countries with very competitive export industries should maintain high tariff protection for their domestic market while benefiting from low tariff access . . . to our own markets', Mr Brittan declared.

However, he went on to say that attempts to end this positive discrimination could not consist solely of one-sided demands from the developed countries. Instead, these countries would have to abandon the worst examples of discrimination against newly industrialising countries if they hoped for any progress. In particular, the developing countries would almost certainly link re-negotiation of the Multi-Fibre Arrangement (MFA – see below) to any commitments they were to make.

It had long been established practice to support domestic agriculture with excessive price guarantees, Mr Brittan explained, and then to dispose of surpluses at prices which undercut and distorted world prices. This now posed 'a serious threat to the entire trading system. It will be vital in the new round to move towards more realistic policies and disciplines for the agricultural sector.' In any case, it was absurd, Mr Brittan argued, for the developed countries to secure the incomes of the 5 per cent or so of their working populations employed in agriculture by adopting restrictions whose effect was to undermine the open trading system on which their whole economies depended.

The textiles and clothing sector was the only one in which the multilateral disciplines of the GATT had been formally but temporarily set aside. In their place was the MFA (see pp 202-3, 1985), which imposed bilateral restrictions on imports into developed from developing countries. The MFA was seen in developing countries as 'the prime example of developed country abuse of [the] GATT'. Britain had experienced such a rapid contraction in employment in this sector that, on the expiry of the MFA in July 1986, renewal – albeit on a more liberal basis – would be unavoidable: 'we certainly cannot end this protection with a sudden jolt'. Its long-term future, however, had to be decided in the next GATT round. Britain and other developed countries were looking to the more advanced developing countries for a much fuller acceptance of the basic disciplines of the GATT; they could not, therefore, ignore their demands that the developed countries accept these disciplines in the case of an industry of such importance to the export earnings of developing countries.

As with textiles and clothing, the multilateral rules for trade in steel had been partly displaced by bilateral restrictions. Mr Brittan said that these would also need to be dismantled for the restoration of confidence in the open trading system. The Community was beginning this process by seeking a measure of liberalisation in the renewal of its external steel regime for this year. It was important, Mr Brittan added, that the United States should express its intention to move in the same direction when its current bilateral restrictions ended.

For most of 1985, discussion of a new GATT round had been centred on services, which now accounted for 20 per cent of world trade and were an important British interest. 'Our broad objective is already clear', Mr Brittan said. 'We want to win for British providers of services the same freedom to sell their wares abroad that the GATT has progressively procured for exporters of goods since the second world war.'

The Consumer

The consumer benefited from competition, which the open trading system existed to promote; British objectives were designed to make the system more open. An issue of particular interest to consumers was international trade in counterfeit goods, which infringed a trademark. Consumers needed to be protected from items which, as well as being mere imitations, could even be dangerous.

Settlement of Disputes

Mr Brittan saw an urgent need to establish a new procedure within the GATT for the settlement of trade disputes, which had been 'a recurrent and unwelcome feature of the last five or six years'. The present system, which relied on flexibility and unanimous consent, had proved inadequate. 'Under the pressures that now face the world trading system there is a case for somewhat less flexibility and somewhat more clarity, vigour and dispatch.'

Conclusion

Mr Brittan expressed regret that the GATT, which had served the trading nations well, was being circumvented in a number of ways. In the next round Britain would seek a GATT with 'stronger rules, fairer rules and rules that meet the new needs of a rapidly changing world economy'. A strengthening of the GATT would lead to a strengthening of the multilateral trading system. This would help every economy, particularly one as export-orientated as the British. 'What we want to see now is not just a repair job, but an extension and in some parts a re-construction of the system so that it will provide . . . a secure and reliable framework for trade – for rights and obligations of trading countries and settlement of their disputes – forward into the next century.'

Industry Year 1986

Industry Year 1986, which aims to encourage a better understanding of industry, its essential role and its service to the community, was launched at a ceremony held at the Royal Society for the Encouragement of Arts, Manufactures and Commerce (RSA) in London on 16 January. The Year also seeks to foster the pride of those who work in industry in their own achievements and contribution to the welfare of the nation.

The RSA, which initiated Industry Year (see p 181, 1984), is an independent body which was founded in the eighteenth century to provide a link between the applied arts and industry and between the academic and the practical.

Three principal areas for action have been identified as being most important in achieving Industry Year's objectives. These are increasing public awareness of industry's role by using every possible channel of communication; accelerating change in the relationship between education and industry; and encouraging industry itself to explain the part it plays in society and to demonstrate its contribution to the life of the community. Industry Year has the support of all sides of industrial life in Britain: the Confederation of British Industry (CBI), the Trades Union Congress (TUC), the Industrial Society, the British Institute of Management and all relevant professional and educational institutions as well as the Department of Trade and Industry. The Director of Industry Year is Sir Geoffrey Chandler, OBE, a former Director General of the National Economic Development Office.

The main instruments for the implementation of activity in Industry Year are the thirteen regional working groups which have been set up. These involve all sections of the community in their areas and each group determines for itself the form it considers most appropriate within the broad concept of Industry Year, taking into account the wishes and needs of its region. In addition there are a number of nationally organised working groups to deal with special areas of interest and to assist the participation of particular constituencies. These groups cover the churches, design, education, industry, museums, publicity and women.

Launching Industry Year, the President of the RSA, the Duke of Edinburgh, said that people had been taking industry for granted for too long, forgetting that Britain owed its prosperity and its social and material standard of living to industry. However, former complacent views and attitudes to industry were changing. He welcomed the support that had been received from all quarters and hoped that the Year's repercussions would continue long after the initial campaign was over.

The Director General of the CBI, Sir Terence Beckett, announced that the Confederation had organised hundreds of events throughout the country and that a key objective would be the strengthening of links between companies and schools, particularly by raising £2 million for the Understanding British Industry project. The CBI would also be encouraging companies to communicate more effectively with their employees, with their local communities and with the general public, particularly by holding open days.

The General Secretary of the TUC, Mr Norman Willis, welcomed the role to be played by the education service in Industry Year (see p 73) and the emphasis to be placed on the role of women in industry. He hoped the Year would generate a sense of common purpose among all sections of the community.

The then Secretary of State for Trade and Industry, Mr Leon Brittan (see p 31), said that the aims of Industry Year were close to those of the Government. The Year was a wonderful opportunity to show young people of both sexes the challenge and excitement of a career in industry. His Department had for several years been encouraging the development of better links between industry and education and he highlighted as a recent example the programme to get a

mini-enterprise into every school by the end of 1986, which had been launched in November 1985. The Government would be contributing £750,000 to the RSA for Industry Year.

Sir Geoffrey Chandler said that an organisation covering the whole of Britain and involving over 250 local organisers had been created in only 15 months. He praised all those who had played a part in this achievement, both individuals and those organisations and companies which had seconded some 40 members of their staffs to working groups throughout the country. He said that Industry Year had a plan of action, based on the belief that attitudes were changed not by exhortation, but by changes in performance, behaviour and example built into the work and life of the community. While the effort would, of course, have to be sustained beyond 1986, he was sure that Industry Year would be successful in making people aware of the human and creative challenge represented by industry.

Agriculture

Estimates of British agricultural production in 1985 are contained in the *Annual Review of Agriculture 1986*, published in January. The review also examines the prospects for the industry.

The review[1] says that most sectors of the agricultural industry experienced special difficulty during 1985 largely because of poor weather conditions. There were few dry days and sunshine and temperatures were significantly below normal, with Scotland, Northern Ireland and the hill and upland areas of Wales and northern England particularly badly affected. The poor weather severely interfered with hay-making and the provision of winter feed, thereby seriously affecting the livestock sector. Arable farming was also affected, with yields of cereals 16 per cent below 1984 levels and the quality of the crop also reduced.

Farming income, which measures the return to farmers and their spouses, including that on own capital invested, is estimated to have fallen by 43 per cent to £1,154 million, this following a rise of 35 per cent in 1984. Farm business income – the sum of farming income, returns to non-principal partners and directors, and return on all capital invested – is estimated to have fallen by 25 per cent to £2,223 million.

Farms

In 1985 there were some 240,000 farm holdings in Britain, a reduction of 1·5 per cent compared with 1980, with the decline being concentrated among the smaller full-time businesses. Some 90 per cent of total output came from businesses capable of providing full-time employment for at least one person and these represented just under half the total number of holdings. About half of the total output came from large businesses of 1,000 standard man-days[2] or more, which accounted for about 12 per cent of the total number of holdings. In Northern Ireland and Wales, output from small-scale farms is proportionately more significant than in other parts of Britain.

The average area (including rough grazing) of full-time businesses of 250 standard man-days or more is now almost 125 hectares[1] compared with about 117 hectares in 1980. Because of the decline in holdings and increased specialisation, the average size of enterprises has tended to increase: between 1980 and 1985, for instance, the number of holdings growing cereals fell by about 10 per cent, while the average size of cereals enterprises rose by 14 per cent to 42 hectares. Over the same period the numbers of holdings producing potatoes and sugar beet declined by 20 and 13 per cent respectively. There were, however, more than 12,500 oilseed rape enterprises in 1985 compared with about 4,000 in 1980.

In England, Scotland and Wales 70 per cent of holdings were wholly or mainly owner-occupied compared with 54 per cent in 1960-61, and the proportion of agricultural land farmed by its owner increased from 52 per cent in 1960-61 to 61 per cent in 1984. Virtually all farmers in Northern Ireland are owner-occupiers.

Farm Output

Gross output is expected to have fallen by £667 million (5 per cent) to £11,883 million in 1985, compared with an increase of 8 per cent between 1983 and 1984. The overall volume of output (as measured by the index of gross output at constant 1980 prices) is expected to have fallen from 113 to 110: this is mainly attributable to the smaller cereals harvest and also to lower prices for farm crops.

Productivity

Productivity, measured by the index of gross agricultural product at constant prices per full-time worker equivalent,[2] increased on average by over 7 per cent annually during the ten years up to 1984. Following an exceptional increase of some 17 per cent in 1984, it is estimated to have fallen by about 3 per cent in 1985: this results from a decrease of about 4 per cent in gross agricultural product at constant prices being only partly offset by the decline in the agricultural labour force, the number of regular full-time workers having fallen by only 2·5 per cent between 1984 and 1985 compared with an average annual reduction of about 4 per cent in the ten years to 1984. The number of people engaged in agriculture in 1984 was nearly 700,000, of whom 157,000 were regular full-time workers, 160,000 were part-time, seasonal or casual workers and 368,000 were farmers, partners and directors and their spouses.

The review says that an alternative measure of productivity could be obtained by comparing changes in the level of output with changes in the total relevant inputs employed, such as labour, usage of capital items and materials. Measured in this way, preliminary calculations suggest a rise in productivity of around 3 per cent a year over the last decade and 2·5 per cent over the last five years.

[1] *Annual Review of Agriculture 1986*. Cmnd 9708. HMSO, £5·80. ISBN 0 10 197080 3.

[2] A standard man-day represents 8 hours' productive work by an adult worker under average conditions.

[1] 1 hectare = 2·47 acres.

[2] This reflects changes in, for example, plant and animal breeding, and investment in the organisation of farming, as well as changes in the number of people employed and short-term changes in output caused by factors such as weather.

Investment and Public Expenditure

The value of new investment in fixed assets is estimated to have risen by 7 per cent in 1985 to £1,265 million. Expenditure on buildings and works is thought to have been £550 million, a fall of 20 per cent compared with the 1984 level, while that on plant, machinery and vehicles is thought to have increased by 5 per cent to £715 million. In aggregate, the volume of total gross fixed capital formation is estimated to have fallen by about 12 per cent compared with 1984.

Public expenditure in Britain on market regulation under the European Community's Common Agricultural Policy is expected to be about £1,893 million in 1985-86, compared with some £1,377 million in 1984-85. This includes the school milk subsidy, beef and sheepmeat variable premium schemes, the premium schemes for the non-marketing of milk and the conversion of dairy herds, the suckler cow premium scheme, the annual premium on ewes, the oilseed continuing subsidy, animal feed subsidies, private storage aids, export refunds and the cost of purchasing commodities into intervention minus proceeds from sales.

Expenditure on price guarantees for wool and potatoes, capital grants, and support for agriculture in special areas is estimated to be £322 million in 1985-86, compared with £338 million in 1984-85. This figure includes £17 million specially allocated to help those livestock farmers seriously affected by the exceptionally bad weather conditions in 1985.

Commodities

In 1985 cereals were grown on 4·02 million hectares, a net decrease of 16,000 hectares since 1984. Yields were well down on the record levels of 1984 and production of cereals is estimated at 22·3 million tonnes, a fall of 4·3 million tonnes, but still the second largest harvest on record. However, average quality, particularly of milling wheat, was low.

The area sown with oilseed rape in 1985 increased by 10 per cent to 296,000 hectares and average yields were lower than in 1984 at 3·01 tonnes per hectare. Production is expected to have been 891,000 tonnes.

Potato plantings in 1985 were in line with the target area of 191,500 hectares and production is calculated to have been over 6·8 million tonnes.

The review estimates that the harvested area of sugar beet was about 200,000 hectares, slightly more than in 1984, and that the crop may have yielded 1·2 million tonnes of white sugar.

The area devoted to horticulture in 1985 was about 226,000 hectares compared with 218,000 hectares in 1984, an increase of 3·5 per cent.

Livestock

The June 1985 census showed a decline of 3·5 per cent in the total cattle breeding herd, while the dairy herd, which accounts for about 70 per cent of all breeding cows, fell by 4·5 per cent as dairy farmers continued to reduce their milk production in response to milk quotas (see pp 116–17, 1984). However, the average yield per cow is thought to have risen by about 3 per cent, leading to a drop in the level of milk production of only 1 per cent over 1984. Provisional figures for 1985 show that there were 12,847,000 head of cattle and calves of which 1,339,000 were beef cows and 3,131,000 were dairy cows.

The sheep breeding flock expanded by just under 1·5 per cent between June 1984 and June 1985 and wool production is estimated to have been 41 million kilograms. Homefed production of sheepmeat is estimated to have risen by 9,000 tonnes to 305,000 tonnes. The estimated number of sheep and lambs was just over 35 million.

Pigmeat production is calculated to have been 945,000 tonnes, compared with 919,000 tonnes in 1984. Poultry meat production is estimated to have totalled 845,000 tonnes in 1985, compared with 870,000 tonnes in 1984.

Channel Fixed Link

The British and French governments have agreed to facilitate the construction of a fixed link across the Channel and have chosen the project submitted by the Channel Tunnel Group/France Manche for twin single-track rail tunnels. The link would carry through rail services and a drive-on, drive-off vehicle shuttle service using specially designed shuttle trains. It would be the largest civil engineering project in Europe to be undertaken by the private sector and would link Britain directly with the European rail system. Subject to the appropriate agreements being reached, construction could begin by 1987 with a view to operations beginning in 1993.

At a meeting in Lille on 20 January the Prime Minister, Mrs Margaret Thatcher, and President Mitterrand of France jointly announced their decision to facilitate the development, construction and operation of a fixed link across the Channel. At a subsequent press conference, Mrs Thatcher said that it was 'a historic occasion' and 'a dramatic step' in co-operation between Britain and France. The project agreed would have 'immense significance for trade and communications' between the two countries. The Channel Link Treaty with France (see pp 61 and 63) was signed on 12 February at Canterbury (Kent) by the Secretary of State for Foreign and Commonwealth Affairs, Sir Geoffrey Howe, and the French Minister for External Relations, M. Roland Dumas, in the presence of Mrs Thatcher and President Mitterrand.

In a statement in the House of Commons on 20 January (*Hansard*, Vol 90, No 39, cols 19-20), the Secretary of State for Transport, Mr Nicholas Ridley, said that the governments had been faced with four proposals 'of outstanding quality', which reflected great credit on the firms involved. It was 'remarkable that such keen competition could develop to provide and finance privately a project of this magnitude'. The successful promoter's project was 'a well-developed project, relying on well-proven technology' and was less risky and expensive than the other projects. It would offer 'a fast and efficient rail shuttle service for road passengers and freight, with very frequent departures and no booking'. It presented no problems to maritime traffic and its environmental impact could be reduced to an acceptable level. He said that the

Government remained 'very much aware of the arguments that the public would like a drive-through link'. An undertaking had therefore been obtained from the Channel Tunnel Group that it would put forward by the year 2000 a proposal for a drive-through link to be undertaken as soon as the technical feasibility was assured and when economic circumstances and the growth of traffic allowed it to be financed without undermining the return on the original link. The Channel Tunnel was 'a massive and difficult project', which would be a challenge to the engineers, technicians and financial institutions. He believed that it would be 'of great benefit to travellers and exporters alike in giving them cheaper, quicker and more reliable access to the continent of Europe'.

HISTORY OF A CHANNEL FIXED LINK

The idea of linking Britain and France at their nearest points by a submarine tunnel or other form of fixed link has been discussed on both sides of the Channel for over 180 years. The original suggestion is attributed to the engineer Mathieu, who in 1802 submitted to Napoleon a plan for a carriageway contained in an undersea tunnel. Several schemes were afterwards put forward, with the first practical plans for a rail tunnel being published in the 1860s. Although some initial work on a tunnel was undertaken, including the boring of a 1,800-m[1] pilot tunnel, in 1883 the British Government rejected the project on strategic grounds and work ceased. There was a revival of interest in the 1920s, but a proposal put forward in 1930 was rejected by the House of Commons.

Interest revived in the 1950s and 1960s, and in 1964 the two governments agreed to proceed with a rail tunnel project, while a subsequent geological and geophysical survey of the Strait of Dover confirmed that a tunnel was technically feasible. In 1971 an international group (comprised of a British and a French sub-group) was authorised to proceed with the first phase of final studies on the project. The governments signed agreements with the successful promoters in 1972 and during 1973 the first phase, covering the main technical, economic and financial studies, was completed. A treaty between Britain and France and further agreements with the promoters were signed in 1973, and under the second phase trial borings began on both sides of the Channel. A reassessment of the project was announced in 1974 and in 1975 the agreed arrangements for the project were abandoned (see pp 73-4, 1975).

A number of other proposals were then put forward including joint proposals by the British Railways Board and the French railways (Société Nationale des Chemins de Fer Français – SNCF) for a single-track railway tunnel. In 1980 the then Minister of Transport said that private capital would be expected to meet the cost of constructing a fixed link (see pp 134-5, 1980). In 1981 a summit meeting between Britain and France agreed that a joint study group should examine the technical and economic aspects of a fixed link. The group's report, issued in 1982 (see p 252, 1982), concluded that a fixed link could be economically advantageous and the group believed that the balance of advantage lay with bored twin rail tunnels with a vehicle shuttle and built, if necessary, in phases. In 1984 a group of British and French banks published a report on finance for a cross-Channel link (see p 233, 1984) which concluded that only a twin-bored rail tunnel with a vehicle shuttle service would be likely to attract adequate private financing. Later in 1984 the Secretary of State for Transport and the French ministers responsible for transport reaffirmed both governments' willingness to take the necessary steps to facilitate construction of a fixed link, provided that it could be financed entirely by the private sector. Guidelines for promoters of a fixed link were issued in April 1985 (see pp 131-2, 1985) and proposals were required by the end of October 1985.

[1] 1 m = 3·281 ft.

WHITE PAPER

The White Paper on the fixed link, published on 4 February,[1] sets out the reasons for the decision taken and the consequences for the public, the environment and employment. It describes the consultation arrangements and the next steps proposed by the Government to give effect to the decision. In a debate in the House of Commons on 10 February (*Hansard*, Vol 91, No 54, cols 686-734) the White Paper was approved by 268 votes to 107.

The White Paper says that the Government's policy for international transport is 'to increase consumer choice and promote efficiency by encouraging competition and innovation'. The Government was conscious of the benefits that a link would bring to industry, to travellers and to trade between Britain and the continent of Europe, which accounted for 60 per cent of Britain's international trade. Britain's island status, which has often been an advantage, is now 'a practical and economic hindrance to closer links with Europe. A fixed link will significantly reduce that barrier, with benefits to the nation as a whole and will provide another mode of transport, competing on fair terms with air and sea for the growing traffic.' In inviting submissions the two governments ruled out all support from public funds or government financial guarantees and required that any link should be constructed and operated entirely at the promoters' risk within the framework of national (including European Community) law in each country.

Main Proposals

By 31 October 1985 four promoters had submitted proposals to the two governments and put up the necessary financial deposit:

1 Channel Expressway. This proposal, submitted by British Ferries Ltd, was for twin-bored road tunnels, each tunnel of 11·3-m diameter and with a two-lane carriageway. There would also be twin-bored single-track rail tunnels. The promoters' estimated basic cost at 1985 prices was £2,600 million.

2 Channel Tunnel Group. This proposal (costing some £2,600 million at 1985 prices), submitted by a group of British and French construction companies and banks, was for twin 7·3-m diameter single-track railway tunnels, with a separate service tunnel of 4·5-m diameter. There would be a drive-on, drive-off vehicle shuttle service using specially designed shuttle trains, and the promoter would contract for the passage of through trains operated by the national railways.

[1] *The Channel Fixed Link*. Cmnd 9735. HMSO, £3·50. ISBN 0 10 197350 0.

3 Eurobridge. Eurobridge's proposal, submitted by the Eurobridge Studies Group (backed by a number of companies including John Laing and British Petroleum) was for independent road and rail links. The rail link proposed was a single 6-m bored tunnel (with a separate service tunnel of 4·5-m diameter) in which through trains would operate in series in alternate directions. The road link proposed was a series of suspension bridges with 5-km spans,[1] supporting a total of 12 lanes (on four decks) enclosed in a tube. The basic cost estimated by the promoters was £5,200 million at 1986 prices.

4 EuroRoute. The proposal from the EuroRoute Group, comprising British and French industrial companies and banks, was for a road and rail project costing some £5,000 million at 1985 prices. The road link proposed was for an initial length of tunnel through cliffs at Dover, followed by an 8·5-km bridge to an artificial island at the edge of the main Channel shipping lanes, after which the road would make a spiral descent into a 21-km immersed tube on the seabed to a further artificial island and spiral leading to a 7-km bridge to the French coast. The rail link proposed was for twin-bored single-track tunnels, one of which would be divided longitudinally to provide a service gallery. While the first tunnel would be brought into operation at the same time as the road link, the service tunnel would be open some three years later and therefore in the initial stages of operation through trains would run in 'flights'.

Analysis of the Schemes

During November and December 1985 a joint assessment group of British and French officials, assisted on each side by independent consultants, evaluated all aspects of the proposals (such as engineering, safety, security, the environment, economic effects and finance) and submitted a joint report to the two governments. In addition, the British assessors made a separate study of those aspects of particular importance to Britain, notably the impact that any likely reduction in the ferry fleet might have on defence capabilities, and the effect on trade of a blockage of a fixed link.

The White Paper gives the reasons for the rejection of three of the four proposals. It says that the Eurobridge project was rejected mainly on technical grounds. 'Imaginative and forward-looking though the project is, the construction techniques and materials proposed have not yet been proven in comparable applications.' Together with the absence of detailed financing plans with identified backers, this made it too speculative to be chosen.

EuroRoute, though considered to be 'a bold and attractive concept', would be very damaging to the environment and would create hazards to shipping, both during and after construction. It would involve large technical risks and be more vulnerable than a bored tunnel scheme to terrorist attack and sabotage. Although the project had substantial financial backing, it was expensive and there could be more difficulty than for the chosen project in raising all the necessary finance.

Channel Expressway's project would also involve considerable technical risks. There was doubt about whether the large-diameter road tunnels could be bored economically through the difficult geological formations near the French coast, and there were other doubts concerning ventilation.

Among the advantages of the selected proposal from the Channel Tunnel Group/France Manche are that it offers the best prospect of attracting the necessary finance, carries the fewest technical risks, is the safest project from the traveller's point of view, presents no problems to maritime traffic, is the least vulnerable project to sabotage and terrorist action, and has an environmental impact that can be contained and limited. However, the White Paper says that consultations on the choice of project have indicated many people's wish for a drive-through link. In due course conditions may arise when such a link would be technically and financially viable, and the successful promoter has therefore undertaken to submit to both governments by 2000 a proposal for a drive-through link to be undertaken as soon as the technical feasibility is assured and when economic circumstances and the growth of traffic are such as to permit it to be financed without undermining the return on the original link. To avoid undermining the returns to investors in the initial project, the governments will undertake not to facilitate any other fixed link which would be in operation before 2020.

Channel Tunnel Group/France Manche Scheme[1]

The promoter is a joint venture of the Channel Tunnel Group and France Manche. Members of the former are Balfour Beatty Construction Ltd, Costain UK Ltd, George Wimpey International Ltd, Midland Bank plc, National Westminster Bank plc, Tarmac Construction Ltd and Taylor Woodrow Construction Ltd, while Granada Group plc and Mobil Oil Co Ltd are associate members. The combined annual turnover of the construction companies is over £5,000 million and the assets of the two participating banks total £133,000 million. France Manche comprises Bouygues SA, Dumez SA, Société Auxiliaire d'Entreprises SA, Société Générale d'Entreprises SA and Spie Batignolles SA, which have a combined annual turnover of over £7,000 million, and three banks (Banque Indosuez, Banque Nationale de Paris and Crédit Lyonnais) with assets of some £180,000 million. As the project develops, the promoter intends to widen the equity base by bringing in substantial outside investment.

The length of the fixed tunnel link will be about 49·2 km: 37·5 km beneath the sea, 8 km beneath the British mainland and 3·7 km beneath the French mainland. Journey time between the two terminals, Cheriton (near Folkestone) and Fréthun (south-west of Calais) will be some 30 minutes, with trains travelling at a maximum speed of 160 km per hour. The terminal at Cheriton will cover 140 hectares (350 acres) and will contain a rail loop for the shuttle trains to run into the tracks beside the platforms.

Services

Shuttle trains will provide a no-booking, drive-on, drive-off service, departing at intervals of 10 to 12 minutes at peak periods and every 20 minutes for most of the rest of the day. Later, as traffic develops, the

[1] 1 km = 0.621 mile.

[1] Some of the information in this section has been taken from *The Channel Tunnel Project: A Digest* and *Channel Tunnel: A Summary of the Project*. Both are available unpriced from the Channel Tunnel Group, 27 Hammersmith Grove, London W6 7EN.

peak frequency will be every five minutes or less. Three types of shuttle wagon are envisaged: double-deck tourist shuttles for private cars, single-deck tourist shuttles for caravans and coaches, and lorry shuttles for freight vehicles. The promoter's planned initial purchase of rolling stock is for 18 complete trains, allowing up to 1,000 vehicles an hour to be carried in each direction at peak periods. In the initial years after opening in 1993 it estimates that some 3,300 private cars and 1,000 other vehicles a day will be carried in each direction, and that by 2003 daily rail traffic will have grown to 3,900 private cars and 1,200 other vehicles. Fares are expected to be about 10 per cent less in real terms than the current ferry fares.

Through Rail Services

The link connects the existing inter-city rail networks of Britain and the continent (see map).[1] British Rail has already agreed in principle with SNCF that passenger services should be provided and managed by a joint venture between them, and it would prefer to operate services with specially built high-speed trains designed for both British and continental gauges. These trains would be capable at running at over 250 km per hour in France if the projected high-speed line in northern France were built for the French high-speed train, the Train à Grande Vitesse. In England the trains would run on existing electrified track (using the third-rail system) as the construction of a new high-speed line to London has been ruled out on grounds of environmental disturbance and cost. On these assumptions, journey times between London and Paris would be about 3 hours 15 minutes and between London and Brussels about 3 hours. Through freight services between Britain and the continent are planned, and the White Paper says that the link opens up considerable opportunities for rail to carry Britain's imports and exports throughout the continent. British Rail envisages investment of up to £390 million to provide freight services and high-speed passenger services, although if the latter were conventional-speed services the cost would be about £100 million less. Investment would include specialised rolling stock, freight locomotives, track and signalling improvements, and a new international passenger terminal at Waterloo (London).

Road Network

The existing main motorways and roads are shown on the map. The White Paper says that the Government has assessed its plans for the national road network to ensure good access to the tunnel terminal. The M20 motorway will provide the main traffic artery serving the tunnel. Improvements are planned including the construction of the remaining section of the motorway between Maidstone and Ashford and the widening of another section from two lanes to three in each direction so that there will be a dual three-lane motorway from the tunnel terminal at Cheriton to the M25. This will provide adequate capacity to avoid any tendency for traffic to use unsuitable roads through the Kent countryside and villages.

[1]The map of Britain and the near continent of Europe accompanying this article shows a selection of the main InterCity Europe rail lines and some of the major motorways and trunk roads. For a map of the inter-city railway network in Britain see COI reference pamphlet *Transport and Communications in Britain*, No 126/85, and for a map of Britain's motorways and major trunk roads see *Britain 1986: An Official Handbook*, inside back cover.

Environmental Effects

Environmental impact was an important factor in the selection of the successful scheme, according to the White Paper, and the Government will seek to ensure that the environmental damage will be kept to a minimum. Construction of the tunnels and of the terminal site will have an impact on the environment, and in a number of areas the Government will require thorough investigation of measures to mitigate the damage.

An important aspect of protection of the environment is the need to protect wildlife from diseases, such as rabies, which are not endemic in Britain. Effective frontier controls and security checks (which will be located so that the formalities of both countries are completed before travellers board the trains) are only part of the requirement. 'All possible measures are needed to exclude stray animals from the link' and the promoter has already made a number of proposals, which are to be considered exhaustively.

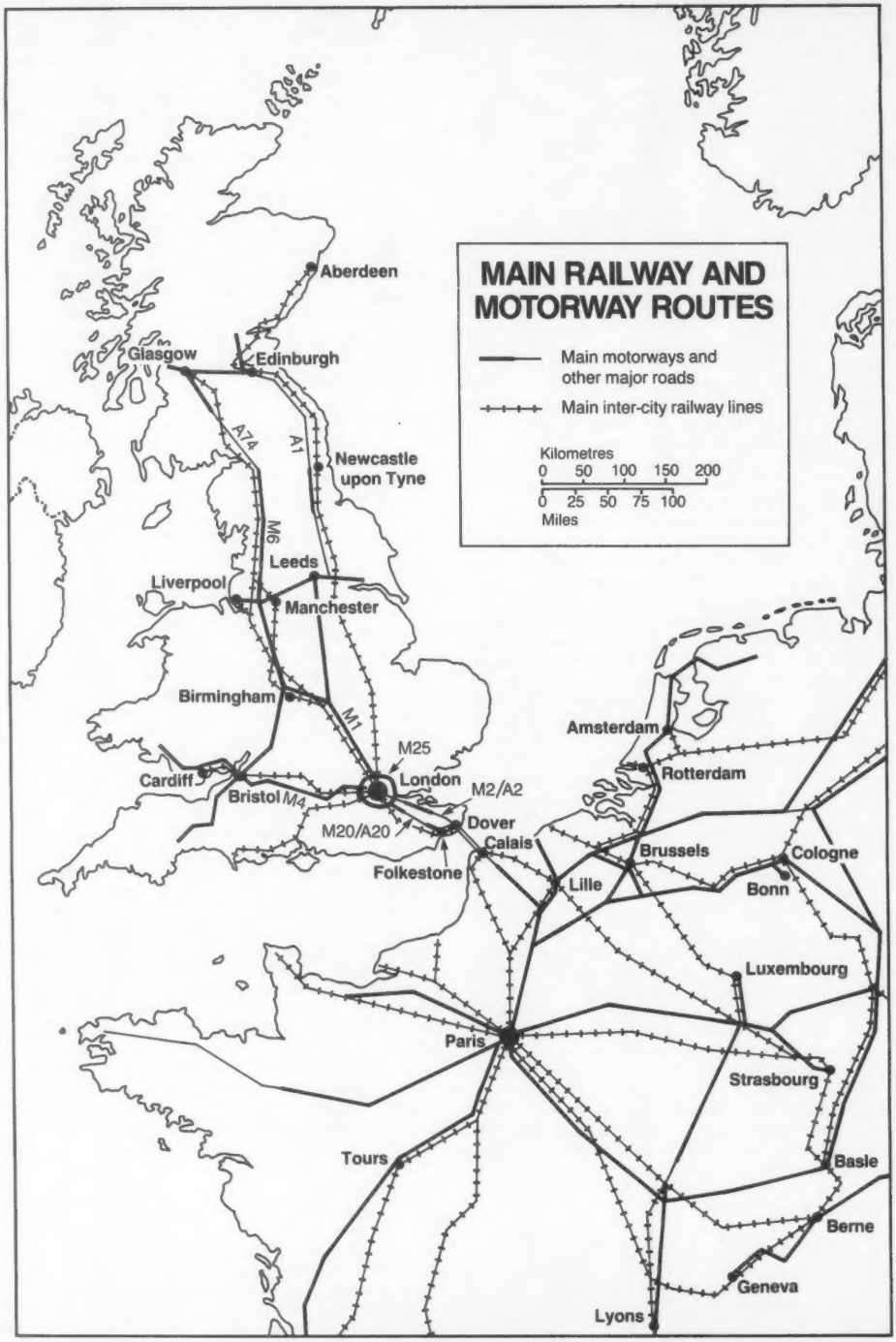
Economic Effects

The promoter expects that, between 1987 and 1993, construction of the link will generate in Britain some 40,000 man-years of direct employment, or 65,000 to 70,000 man-years after allowing for indirect employment effects, with a similar amount of employment being generated in France. British Rail investment in new rolling stock will also have substantial effects on employment. The impact on local employment (in the areas of Dover and Folkestone) is more complicated. On the basis of the promoter's estimates, at the time of the link's opening, it will provide fewer direct jobs in east Kent than there would be without a link. Jobs can be expected to grow as traffic increases, while the link has potential to generate new jobs in ancillary industries. The White Paper says that the link will bring 'direct economic benefits in the form of cost savings in carrying goods across the Channel and in the form of savings in travel time for passengers'. These benefits can be expected to increase Britain's trade with the continent of Europe and to contribute to economic growth and employment throughout Britain.

The Government accepts that the link will have an effect on the level of ferry services, most significantly on the routes to France across the Strait of Dover. Taking account of the spread of cross-Channel services which operate from a number of ports on the south and east coasts, it is expected that when the link is open the total ferry capacity will be slightly less than in 1986, but will increase again in later years. The number of ferries will be smaller as present vessels are replaced by a new generation of larger, more efficient ships. After carefully considering projections of the tonnage of the cross-Channel fleet under the British flag in relation to its existing level, the Government has concluded that there will still be sufficient ferry capacity to fulfil Britain's defence requirements.

Programme

The White Paper sets out the steps required before construction of the link can begin. These include the Channel Link Treaty with France, a concession agreement with the promoters and appropriate legislation. In addition, extensive consultations will be held with local authorities and other organisations about various aspects concerning the planning, construction and operation of the link.


MAIN RAILWAY AND MOTORWAY ROUTES
Main motorways and other major roads
Main inter-city railway lines
Kilometres
0 50 100 150 200
0 25 50 75 100
Miles
Aberdeen
Glasgow
Edinburgh
A74
A1
Newcastle upon Tyne
M6
Leeds
Liverpool
Manchester
Birmingham
M1
M25
Cardiff
Bristol
M4
London
M2/A2
M20/A20
Dover
Calais
Folkestone
Amsterdam
Rotterdam
Brussels
Cologne
Bonn
Lille
Luxembourg
Paris
Strasbourg
Tours
Basle
Berne
Geneva
Lyons

The object of the Treaty is to demonstrate the governments' commitment to facilitating the project and providing the necessary undertakings; to make provision for international machinery to safeguard the governments' interest in matters such as safety and the environment during construction and operation; to deal with matters of national jurisdiction; and to establish arrangements for arbitration in the event of disputes over interpretation of the Treaty between the governments and with the concessionaires. It also sets out the private sector nature of the link and provides for compensation to the promoter in the event of political interference or cancellation by either government. The Treaty and protocols (on subjects such as customs, immigration, and animal and plant health controls) will enter into force only when ratified by the governments. In Britain this will be after the Bill (see below) receives Royal Assent, probably in the early summer of 1987. However, a number of decisions will have to be taken before then, and two bodies are being set up: an Intergovernmental Commission and a Safety Authority.

The purpose of the concession agreement with the two governments will be to set out in a binding contract the terms on which the Channel Tunnel Group/France Manche are enabled to construct, finance and operate the link. Agreement has already been reached on a number of points, and further negotiations are being held. The agreement will not come into force until the Treaty is ratified.

Legislation will be needed for a number of purposes including enabling the Government to ratify the Treaty, making financial provision for the right to compensation in the event of political cancellation, providing for the application of law and jurisdiction to the link, making any necessary provision for customs, immigration and other frontier arrangements, and authorising the construction of the prescribed works by the promoter and conferring planning permission. The Bill will be a 'hybrid' Bill, a public bill containing provisions not only of public law but also of private law directly affecting individuals and local interests in Kent. In such a case, as well as the normal stages for a public bill, there will be Select Committee hearings in both the House of Commons and the House of Lords in which organisations and people whose interests are directly affected may petition and have their cases heard. The Government intends to introduce the Bill in the House of Commons in spring 1986, with a view to a Select Committee hearing in the House commencing before the summer recess (which normally starts in late July or early August). The passage of the Bill is expected to take about a year, with the aim of obtaining Royal Assent in the early summer of 1987. As French procedures are expected to be completed more quickly, ratification of the Treaty will follow immediately so that construction should begin in summer 1987.

Conclusion

The White Paper describes the fixed link as 'a challenging and exciting project'. It will be the largest civil engineering project in Europe ever undertaken by the private sector. Britain will be directly linked with the European rail system and the link will be a physical symbol of Britain's increasing trade and other links with the continent of Europe. 'The governments have decided to facilitate the project, not to compel it or in any way to underwrite it. The [British] Government is committed to the necessary next steps of treaty, concession agreement and legislation, and will take these as a matter of urgency.'

Road Safety

The launch of European Road Safety Year, which has been designated by the European Community, took place on 9 January. Other recent developments in road safety in Britain have included parliamentary approval for continuing the regulations requiring the wearing of seat belts in the front seats of cars or light vans, and the introduction of regulations requiring new cars from 1 October 1986 to be fitted with rear seat belts.

EUROPEAN ROAD SAFETY YEAR

The designation by the European Community of 1986 as European Road Safety Year is the first time such an initiative has been taken. On the Community's roads some 55,000 people are killed and 1·5 million injured each year. With the ultimate aim of reducing road casualties, the Community has selected three main areas in which it expects action: legislation, research and publicity. The main areas proposed for legislative action are the extension of roadworthiness testing to cars, the provision of safety requirements for heavy goods vehicles (such as anti-lock braking systems and spray suppressors), and the transport of dangerous goods. The British Government is continuing to press for the adoption by the Community of the first two of these proposals, which Britain has introduced or plans to introduce. Research planned for 1986 includes work on extending knowledge of the effects of road crashes on people and vehicles, on measures to improve coach safety, and on safety measures for the most vulnerable road users (children, the elderly and cyclists). Member states are concentrating on publicity themes relevant to them from a list of five subjects: children and young people, cyclists and motorcyclists, drinking and driving, seat belts and speed limits. In Britain the priority for national and local road safety publicity has been given, and will continue to be given, to the first three areas. Many organisations and authorities will be participating in events during the year such as conferences and competitions, and producing leaflets and other publicity material.

Speaking on 9 January, the then Minister of State for Transport, Mrs Lynda Chalker, said that she was delighted that Britain and the other Community members were joining together in promoting road safety through European Road Safety Year. She noted that Britain had a good record on road safety, experiencing the lowest road accident death rate (about 10 deaths per 100,000 population each year) in the Community, although this still resulted in over 5,500 lives lost each year. Road safety was a prime concern and, although the accident rate continued to decline, it could fall still further.

SEAT BELTS

Compulsory Wearing

Parliament has made permanent the regulations governing the compulsory wearing of seat belts in the front seats of cars or light vans, which took effect at the end of January 1983 (see p 299, 1982). Speaking in the House of Commons debate on 13 January (*Hansard*, Vol 89, No 35, cols 877-99), the then Parliamentary Under-Secretary of State for Transport (now Minister of State for Transport), Mr David Mitchell, said that, as the subject of compulsory seat belt wearing had been so controversial, Parliament had decided that there should be a further opportunity after the initial three-year period to decide whether the regulations should be made permanent. As promised, the Government had conducted a comprehensive monitoring programme, and results had been published in a report in October 1985 (see pp 358-9, 1985). In addition, it had decided that there should be an entirely independent analysis of all the statistics by expert assessors, and Professor James Durbin and Professor Andrew Harvey (both of the London School of Economics) had conducted this task and their report had been published as a separate annex to the Department of Transport's report.

The evidence, Mr Mitchell continued, was that there had been 'instant and whole-hearted acceptance of the seat belt law on the part of motorists'. Up to the end of 1982 the proportion of drivers and front-seat passengers wearing belts had never exceeded 40 per cent, but immediately the law had taken effect the wearing rate had risen to about 95 per cent and had remained at that level. This was 'a remarkable achievement', especially as in no other country with similar legislation had the wearing rate even begun to approach the level in Britain. He suggested that the majority of people had 'all but decided for themselves that wearing a seat belt was a sensible thing to do to reduce the risk of death or injury in the event of an accident. All the legislation did was clinch that decision for them.'

Since the regulations had taken effect there had been a substantial net reduction in road casualties, representing a minimum annual saving of 200 deaths and 7,000 serious injuries. These savings could 'only be a direct result of the massive increase in the use of seat belts'. There was no evidence to support the idea that seat belts encouraged drivers to take risks they would not otherwise take. Seat belt wearing had to be seen as 'an outstanding success in terms of reducing casualties'. With the case for seat belt wearing demonstrated so emphatically, the Government's view was that the regulations should be made permanent.

Approval for the continuation of the regulations was agreed by 217 votes to 25.

Rear Seat Belts

Details of regulations governing the fitting of rear seat belts in new cars were given by Mrs Lynda Chalker in the House of Commons on 20 December 1985 (*Hansard*, Vol 89, No 33, written answers, col 345). Mrs Chalker said that the regulations would make rear seat belts or child restraints a legal requirement for all new cars manufactured from 1 October 1986 and first registered from 1 April 1987. The regulations allowed for different types of belt or restraint to be fitted in order to meet European Community obligations, and also allowed people to choose the most suitable type of belt for themselves or restraint for their children. A seat belt would also have to be fitted in the centre front seat of cars and light vans where such a seat was provided. Mrs Chalker said that there were no plans to introduce compulsory wearing of rear seat belts.

Shorter Notes

EFFECTS OF TAXES AND BENEFITS ON HOUSEHOLD INCOME 1984

Details of household income in 1984, based on the latest *Family Expenditure Survey*, show that average original income per household was £8,130. Cash benefits amounted to £1,620, giving gross income of £9,750. Deduction of income tax and employees' National Insurance contributions of £1,770 left disposable income of £7,980. Indirect taxes came to £2,030 so that income after allowing for cash benefits and all taxes was £5,950. With benefits in kind valued at £1,430, final income was £7,370 (rounding accounts for differences between totals and the sum of component parts).

Ranked by original income, the top 20 per cent of households had an original income of £19,750 and a final income of £13,480. The corresponding figures for the bottom 20 per cent (which contains hardly any economically active people) were £110 and £3,820. The top 20 per cent paid an average of £4,740 in direct taxes while the bottom 20 per cent had negative taxes of £10 largely because tax relief on life assurance premiums exceeded tax liabilities.

The effect of the tax-benefit system on income distribution can be seen by comparing shares of original and final income. Ranked by original income, the top 20 per cent of households accounted for 49 per cent of original income and the bottom 20 per cent for 0·3 per cent. Ranked by final income, the shares were 39 per cent and 7·1 per cent respectively.

Source: *Economic Trends*, December 1985. Central Statistical Office. HMSO, £9·95. ISBN 0 11 620180 0.

RATE SUPPORT GRANT

The Government has announced the 1986-87 rate support grant settlements[1] for England, Wales and Scotland.

Announcing the settlement for England in the House of Commons on 18 December 1985, the Secretary of State for the Environment, Mr Kenneth Baker, said that the main feature was the abolition of expenditure targets and the associated grant penalties. The great

[1] Rate support is a system whereby central government supplements the finances for current expenditure of local authorities (about one-third of which is derived from rates – local property taxes – see p 46) so that they can provide services for which they are responsible to similar standards while reducing disparities in their rates.

majority of local authorities had warmly welcomed the decision on this; it represented a major simplification of the grant system. The Government's aim was still to reduce local authority current spending to a level the economy could afford. Though the present system gave low spenders a fairer share of grant, the Government was maintaining strong pressure, even on them, not to take advantage of the abolition of targets to increase spending in real terms.

In England, a planned level for local authority (that is, relevant) expenditure of £25,329 million has been taken into consideration in fixing grant. Aggregate Exchequer grant in 1986-87 will be £11,764 million – the same as in 1985-86 – equal to 46 per cent of expenditure. Of this, specific grants (for, among other things, law and order, housing improvement and the Urban Programme) will amount to £2,606 million, transport supplementary grant will be £164 million and national parks supplementary grant £6 million, leaving £8,988 million for rate support grant.

Aggregate Exchequer grant in Wales will be £1,067 million (67 per cent of relevant expenditure of £1,597 million). Specific grants will be £169 million, transport supplementary grant £20 million and national parks supplementary grant £2 million, so that £876 million is left for rate support grant.

In Scotland, relevant expenditure amounts to £3,578 million. Aggregate Exchequer grant will be nearly £2,009 million (56 per cent of expenditure). Specific grants will be £247 million, leaving over £1,761 million for rate support grant.

Sources: *Hansard*, Vol 89, No 31, cols 308-9; *Local Government Finance (England): The Rate Support Grant Report (England) 1986-87*. Departments of the Environment and Transport. HMSO, £6·50. ISBN 0 10 214086 3; *Local Government Finance (Wales): The Welsh Rate Support Grant Report 1986-87*. Welsh Office. HMSO, £5·15. ISBN 0 10 210086 1; *Local Government Finance (Scotland): The Rate Support Grant (Scotland) (No 4) Order 1985*. Scottish Office. HMSO, £4·60. ISBN 0 10 213986 5.

SALE OF TURBINE GENERATORS TO CHINA

GEC Turbine Generators, part of the major engineering group GEC, has won a contract valued at £250 million to supply the People's Republic of China with two 985-MW turbine generators for a nuclear power station to be built at Daya Bay, some 30 miles from Hong Kong, in the economic development province of Guangdong. The station is a joint venture between local and Hong Kong companies and will begin operating in 1992. Initially 80 per cent of the station's capacity will supply Hong Kong, but it will increasingly supply Guangdong as development there accelerates. The station, which will be the first commercial nuclear power station in China, will represent about 3 per cent of the country's installed generating capacity. The order is the largest British export order to be won so far in China and is backed by a guarantee from the Export Credits Guarantee Department.

Source: Department of Trade and Industry press notice, 6.1.86.

Social Services for Children in England and Wales

The Government has published a report on social services for children in England and Wales for the period 1982 to 1984. Important developments which have taken place during this period include greater legislative provision for the protection of children and the enhancement of their statutory rights and those of their parents, a shift in resources away from residential provision for children in care and greater emphasis on fostering and adoption, and the further expansion of intermediate treatment schemes as an alternative to imprisonment for juvenile offenders. Other areas covered by the report include the under-fives initiative to stimulate voluntary sector provision for disadvantaged families and the growth of day care provision.

The Secretaries of State for Social Services and for Wales are required by law to publish reports every third year on the provision of social services for children. This is the fourth such report.[1] Throughout the report the word 'children' is used to describe children and young people under the age of 18, and those who have attained that age and are still the subject of a care order.

LEGISLATIVE DEVELOPMENTS

While the main legislation for the provision of services for children remained relatively unchanged during the period under review, there were a number of important legislative developments designed to strengthen or expand the range of services for the protection of children and to provide additional rights for parents and children.

The Children's Homes Act 1982

This Act, which has not yet been implemented, provides for a scheme of registration and inspection of privately run children's homes which accommodate children who are in the care of local authorities. The registering authority will be the local authority for the area in which the home is situated. It is expected that the Act, together with Regulations governing the conduct of these homes and the services and facilities to be provided, will be brought into force in 1986.

[1] *Social Services for Children in England and Wales 1982-84.* HMSO, £3·90. ISBN 0 10 209086 6.

The Criminal Justice Act 1982

The main features of this Act affecting children and which was brought into force in 1983 relate to young offenders and to financial sanctions against parents and guardians. They are as follows:

the abolition of the sentence of borstal training and the introduction of the determinate sentence of youth custody of between four and 12 months for juvenile offenders aged 15 and 16;

provision of determinate detention centre orders of between 21 days and four months for male juvenile offenders aged 14 to 16;

a requirement that the court should not impose a detention centre order or sentence of youth custody if a non-custodial sentence is appropriate;

providing the court with an increased range of community-based options for dealing with juvenile offenders through new powers in making supervision orders with requirements;

the introduction of additional criteria that must be satisfied before a court makes a care order;

a new power to add to a care order a condition as to the charge and control of offenders in care who re-offend;

the introduction of community service orders for offenders aged 16; and

provisions for strengthening the safeguards surrounding the placement of children in care in secure accommodation in community homes.

The Health and Social Services and Social Security Adjudications Act 1983

Among other things, this Act creates a more flexible framework for the provision of residential care for children. It:

abolishes the statutory requirement for provision to be planned on a regional basis, replacing this with a permissive power for local authorities to combine with others to plan to meet their joint needs for community homes;

places a duty on local authorities to make what arrangements they think appropriate – on their own or jointly – for ensuring that community homes are available for children in their care;

widens the use to which community homes can be put to include use for children not in care but for whom local authorities have welfare responsibilities;

requires local authorities, as far as practicable, to place children in their care in accommodation near their homes.

Certain changes made by this Act on charges for children in care came into force in January 1984. In particular, all young people in care on reaching the age of 16 now become liable to contribute towards their maintenance; parents in receipt of supplementary benefit or family income supplement are exempt from contributions for those under 16; while local authorities are given power to waive contributions in particular circumstances and may now charge a flat rate contribution for all children in their care as an alternative to a means-tested contribution.

The Act contains new provisions and a new Code of Practice on access to children in care and these were introduced in 1984. These require local authorities to issue a notice to parents before terminating or refusing all further access to a child in care, and give parents a right to apply to a juvenile court for an access order. These new rights are important for parents because a decision to terminate access can lead to the permanent separation of the child from his or her family. The purpose of the Code of Practice is to set out the basic principles on which local authorities and other child care agencies should operate in promoting and sustaining links between children in care and their families; and in handling decisions to restrict or terminate parental access where it is necessary to do so in the child's interest. The impact of the new legislation and the Code of Practice is being monitored by the relevant government departments.

The Registered Homes Act 1984

Part III of the Act, which came into force in January 1985, provides for the setting up of registered Homes Tribunals to hear appeals against decisions of registering authorities in respect of, among other things, voluntary registered children's homes and privately run children's homes registered under the Children's Homes Act 1982 when implemented.

The Child Abduction Act 1984

This Act replaces the old offence of child stealing with two new offences; one to deal with the abduction of a child from the United Kingdom by a parent or other person similarly connected with the child; the other to deal with abduction by a person not connected with the child.

As regards children in care and other special categories where the provisions of child care, adoption and custodianship legislation already apply, the Act ensures that 'appropriate consent' to the taking or sending of such a child out of the country is required from the local authority, voluntary organisation or court involved. It reflects the safeguards already present in child care legislation concerning the unlawful removal of these vulnerable groups of children.

The Child Abduction and Custody Act 1985

This Act, which comes into force in the first half of 1986, enables the United Kingdom to ratify and implement two international conventions: the Hague Convention of 1980 on the Civil Aspects of International Child Abduction, which provides for the prompt return to the country of their habitual residence of children who are wrongfully removed to or kept in another contracting State; and the European Convention of 1980, which is complementary to the Hague Convention and covers cases where there has already been a court decision on the custody of a child. The Lord Chancellor's Department will act as the central authority required by both Conventions, but individual cases will be heard by the High Court.

The Review of Child Care Law

In response to the Social Services Select Committee report on child care published in 1984,[1] the Government established an inter-departmental working party, in association with the Law Commission, to codify and review child care law with a view to producing a simplified and coherent body of law. The working party published its report as a consultative document in October 1985 (see p 328, 1985) and comments from interested parties have been invited by January 1986.

THE URBAN PROGRAMME

Under the Urban Programme special help is given by central government to local authorities in inner city areas by means of 75 per cent grants towards projects aimed at helping to combat problems of severe urban deprivation.

About £100 million of the total programme of £350 million a year is spent on social projects covering education, social services, health and recreational schemes. A large part of this is devoted to projects to benefit children who are at risk of harm or getting into trouble, or who need special help because of mental or physical handicap. Single-parent families, the under-fives and children from ethnic minority groups are given high priority. The Government gives £10 million a year to support projects in England such as day nurseries, after-school children's clubs, battered wives' and children's refuges, intermediate treatment projects (see p 69), family, youth and community centres and respite care schemes for mentally handicapped children. In addition about £750,000 a year is granted for holiday projects for deprived children. In Wales in 1984-85 some £8·6 million was given to projects of a social nature which included schemes similar to those supported in England.

SERVICES PROVIDED BY VOLUNTARY ORGANISATIONS

The Government believes that voluntary organisations can offer a flexible and innovative approach, extending choice and variety of provision, particularly in experimental or specialised services. They also provide a framework which encourages greater community participation, whether by involvement as volunteers or by participation in self-help or mutual aid activities. The total value of grants to voluntary organisations continues to rise from £15·5 million in 1982-83 to £30 million in 1984-85, a result both of increases in existing budgets and of the introduction of specific schemes designed to encourage particular sorts of provision.

SERVICES FOR CHILDREN IN THEIR HOMES

Preventive Services

It is recognised that services which help support families in caring for their children play a crucial part in

[1] *Second Report from the Social Services Committee, 1983-84 Session: Children in Care (House of Commons Paper 360).* HMSO, £8·40. ISBN 0 10 288084 0.

reducing the need for children to come into local authority care. The Government places a priority on the provision of preventive services, recognising the progress and useful work carried out by many local authorities in conjunction with voluntary agencies and self-help groups. The net expenditure of local authorities in England and Wales on these preventive services was just over £3·5 million in 1982-83 and some £4 million in 1983-84.

Day Care for Pre-school Children and Family Support

In October 1983 the Government launched a centrally financed initiative to stimulate voluntary sector provision for disadvantaged families with pre-school children. A sum of £6 million was made available over a period later extended to March 1987 to fund selected voluntary projects aimed particularly at assisting one-parent families; two-parent families where family income was low; isolated parents at home with young children; and disadvantaged ethnic minority families where difficulties may be increased by language and cultural differences. Some 110 projects were funded in England. These included provision for childminding support, day nurseries, family centres, volunteer home-visiting, playgroups, play buses and toy libraries.

During the period 1982-84 the number of private and voluntary places in registered day nurseries increased by 10·3 per cent and the number of registered childminders rose by 20·1 per cent. The number of registered playgroups rose by 7·4 per cent and the number of places overall in such playgroups, by 4·6 per cent.

Many local authorities continued to develop more flexible day services for under-fives with parental involvement through family day centres, and to support and encourage a wider range of services through voluntary organisations and community initiatives. Schemes for the care of children out of school hours and during holidays have also developed considerably, particularly as a result of voluntary or self-help initiatives.

During this period substantial grant-aid was given to national voluntary organisations dealing specifically with families with children under the age of five. Grants to organisations including the Pre-School Playgroups Association in England and Wales and the National Childminding Association rose from £570,750 in 1982-83 to £710,520 in 1984-85, and in 1982 the Government began funding the Home-Start Consultancy, which advises volunteer home-visiting schemes.

In 1984 the Government announced its intention to review the longstanding legislation and guidance covering day services.

Child Abuse

Statutory responsibility for the care and protection of children who may be subject to abuse rests with the local authority social services department, although health services, police, probation, education and voluntary organisations may also be involved. All areas have agreed local procedures to facilitate inter-agency communication and co-operation. Voluntary organisations play an important part in identifying and preventing abuse, the most significant being the National Society for the Prevention of Cruelty to Children (NSPCC). An important development has been the formation of a national Organisation for Parents Under Stress (OPUS) of parent support and self-help groups. The NSPCC is reorganising its field workers to set up a network of child protection teams to work closely with local authority social services departments. To mark the NSPCC's centenary year in 1984, the Government made a grant of £500,000 over three years towards the Society's headquarters costs.

Inquiries

Where a child known to the statutory services has died or has been severely injured, it is essential that the authorities concerned carry out an investigation as soon as possible to identify any deficiencies in procedure or practice. A consultative paper on the conduct of child abuse inquiries was distributed for comment in July 1985.

Departmental Guidance

Successive Secretaries of State have issued guidance on the handling of child abuse cases to local authority social services departments, health authorities and other agencies involved in the care and protection of children. This guidance is being reviewed with a view to improvement and consolidation. There is a growing recognition of the problem of sexual abuse and a number of local initiatives are evolving in response to it which the review will take into account.

SERVICES FOR CHILDREN IN CARE

The increasing emphasis on placing children in care in community homes near their own homes has helped children to maintain links with their families and enhanced the prospects of an early return home where appropriate. It has also enabled more intensive work with families to be made in preparation for the child's return home and has allowed for the design of integrated programmes comprising shorter periods of residential care and periods of close supervision in the community.

During the period of this report there has been a continued increase in the proportion of children boarded out with foster parents and a decline in the number of children accommodated in community homes generally, and in particular those with education on the premises, reflecting the concern of local authorities to place as many children as possible within the community.

In consultation with relevant interested outside bodies, the Government is now reviewing the Boarding out of Children Regulations 1955, which govern the arrangements made by local authorities or voluntary organisations for the boarding out of children in their care, to see what changes are needed in the light of recent developments in practice. In addition the Government expects to issue supplementary guidance on good practice in foster care.

Secure Accommodation

Secure accommodation provides protection or treatment for children whose physical, mental or moral welfare would otherwise be at risk or who would be likely to injure themselves or others. A number of local authorities have sought ways, during the period of this report, to develop alternatives to secure accommodation for the care and treatment of certain groups of difficult and disturbed young people. For the small

group of children for whom placement in security is the only alternative, the Government's policy has been to work with local authorities to ensure that adequate facilities are available and that children on remand for whom placement in security is indicated be accommodated in community homes rather than prison department establishments.

PROVISION FOR JUVENILE OFFENDERS

The Criminal Justice Act 1982 made a number of changes in provision for juvenile offenders (see p 66). Compared with 1982 (the last full year before the new provisions came into force), the number of custodial sentences (that is, to detention centres or youth custody) imposed on juveniles (those aged 14 to 16) fell in 1984 both in absolute terms and as a proportion of all juveniles sentenced or cautioned. In 1984 the total number of juveniles (aged 10 to 16) sentenced or cautioned for indictable offences was about 169,000; this compares with some 168,000 in 1983 and 175,000 in 1982.

Intermediate Treatment

New provisions in the Criminal Justice Act 1982 substantially strengthened the power of courts to specify the details of the community-based programmes known as 'intermediate treatment' that young offenders might undergo under the terms of a supervision order. Intermediate treatment consists of a programme of properly supervised activities chosen from a very wide range, the degree of intensity of the programme varying according to the needs of the young person concerned. These programmes can encompass practical skills (for example, motor repairs, carpentry, cooking), community service (including personal services such as those for elderly or mentally handicapped people), outdoor activities, and educational activities.

Local authorities have been showing an increasing commitment to the development of intermediate treatment facilities. About £8·7 million was spent in 1981-82, increasing to around £14 million in 1983-84. Substantial government support has also been given to stimulate intermediate treatment development with direct grants through the Intermediate Treatment Fund. In 1984-85 this amounted to £1,141,000 in direct grants and £453,000 in grants to the Intermediate Treatment Fund. An additional £15 million was made available over three years from April 1983, over which period the aim was to create new intensive intermediate treatment facilities capable of dealing with 4,500 young offenders a year. Grants of up to £2,000 a year for two years for each offender were to be made to voluntary bodies designated by local authorities.

Throughout the period under review there was much emphasis on inter-agency co-operation, both statutory and voluntary, in tackling local juvenile delinquency problems. A project to promote an inter-agency approach to local juvenile delinquency began in 1982 with the establishment of the Juvenile Crime Unit by the National Association for Care and Resettlement of Offenders (NACRO). With a direct grant from the Government, NACRO established in ten local authority areas juvenile crime consultative committees comprising representatives of community agencies which addressed themselves to various aspects of local juvenile delinquency with the aim of making recommendations to be considered and implemented by those concerned locally.

Remand of Juveniles Charged with Criminal Offences

Government policy is to phase out the remanding of juveniles to prison department establishments as resources permit satisfactory arrangements to be made for their remand to care. Such remanding of all juvenile girls and all juvenile boys under the age of 15 has ended, leaving only boys aged 15 and 16 liable for remand to a prison department establishment. Proposals to restrict further the circumstances in which a 15- or 16-year-old may be remanded in prison are still under discussion.

RESEARCH

Developments in research into social services for children have taken place during the period covered by this report. Recent studies of services for children in the community have covered local authority day nurseries, childminding and day care for the under-threes, and a study is to be made of the lessons to be learned from professional interventions in families where children have been abused. For children in the care of local authorities, a government-financed programme of research about social work decisions in child care has recently been completed and lessons from this and other relevant research are being taken into account in central policy formulation and, since they have implications for social work practice, training materials are to be commissioned. For juvenile offenders, research has included a national evaluation of intermediate treatment while the Home Office continues to carry out a programme of work on juvenile offending, one current project aiming to assess the impact of the Criminal Justice Act 1982.

Drug Trafficking Offences Bill

New powers for tracing, freezing and confiscating the proceeds of drug trafficking in England and Wales are contained in the Drug Trafficking Offences Bill, which was given an unopposed second reading in the House of Commons on 21 January. The Bill also creates the new offences of assisting another person to retain the proceeds of drug trafficking and of disclosing information likely to prejudice an investigation. The Government considers that these powers will be a major deterrent to traffickers and will form an important element in its strategy to combat drug misuse.

The Bill has been introduced because the forfeiture powers in existing legislation have proved inadequate in cases where the proceeds of an offence have been converted into other assets. In drafting the Bill account has been taken of recommendations made by a working party set up by the Howard League for Penal Reform (a voluntary body), under the chairmanship

of the Hon Sir Derek Hodgson, which published its report *The Profits of Crime and their Recovery* in 1984 (£16·50, ISBN 0 435 82650 6) and the views of the House of Commons Home Affairs Committee report *Misuse of Hard Drugs* (Interim Report, Fifth Report for the Session 1984-85, £1·35, ISBN 0 10 239985 9). The Bill applies in general to England and Wales but it is expected that similar legislation will be introduced for Scotland and for Northern Ireland.

Provisions of the Bill

Confiscation Orders

Under the provisions of the Bill, if a person had been convicted in the Crown Court for a drug trafficking offence, the court would be required to make a confiscation order to deprive the offender of the total value of the proceeds of his (or her) drug trafficking. This would be in addition to whatever sentence the court otherwise considered appropriate to the offence. The confiscation order would not be limited to the proceeds of the offence for which the offender was being sentenced, but would take account of the proceeds of his trafficking activities generally. In assessing these proceeds, the court would be able to assume, unless the contrary was shown to be the case, that the whole of an offender's assets, together with any property which had passed through his hands during the previous five years, represented the proceeds of drug trafficking.

Realisation of Assets

Once a confiscation order had been made, the High Court would have powers to appoint a receiver to realise any of the offender's assets for the purpose of satisfying the order. Assets which had been in the hands of the offender but had since been transferred to third parties for less than full value might also be included for this purpose provided that the transfer had taken place within the previous five years or that the assets could be shown to represent the proceeds of drug trafficking.

Imprisonment in Default

Where the confiscation order was not satisfied in full – perhaps because some of the offender's property had been placed outside English jurisdiction – the Bill would provide for increased maximum periods of imprisonment in default. The maximum period of imprisonment in default of payment of a fine is at present 12 months: the Bill would provide a new progressive scale for non-payment of confiscation orders, with a maximum of 10 years in default of sums over £1 million which would be served on top of whatever other prison sentences the court imposed.

Investigative Powers

The Bill provides new powers to investigate the financial dealings of drug traffickers. Where there were reasonable grounds for suspecting that a person had engaged in drug trafficking, the police or Customs would be able to apply to a circuit judge for an order requiring the disclosure of information likely to be of substantial value to the investigation. The provisions would be available in respect of information held by banks and other financial institutions, and also of information held by the Inland Revenue and other government departments.

Restraint Orders

Once proceedings had been instituted in connection with a drug trafficking offence, the prosecution would be able to apply to the High Court for an order freezing any assets which might subsequently be needed to satisfy a confiscation order imposed on the defendant.

New Offences

The first of the new offences created by the Bill is the offence of facilitating the retention, control or investment of the proceeds of drug trafficking by another person, while knowing or having reason to suspect that the person is a drug trafficker. This would be regarded as a drug trafficking offence and would be subject to the new restraint and confiscation procedures. This provision is aimed at those who 'launder' the proceeds of drug trafficking and would be punishable by a maximum of 14 years' imprisonment.

The second new offence is that of prejudicing a drug trafficking investigation, and is directed at anyone who, on learning that the police or Customs had obtained or applied for an order requiring the disclosure of information, alerted the suspect that his affairs were being investigated. This offence would be punishable by a maximum of 5 years' imprisonment.

Enforcement of Orders outside England and Wales

The Bill contains powers for Orders in Council to be made, designating countries whose orders confiscating the proceeds of drug trafficking would be enforceable in England and Wales. This would provide the basis for reciprocal agreements with other countries, with a view to the enforcement of orders made by English courts against assets held overseas, and vice versa. It also provides for Orders in Council to be made enabling confiscation orders made by courts in England and Wales to be enforced against property in Scotland.

Parliamentary Debate

Opening the debate on the second reading of the Bill in the House of Commons (*Hansard*, Vol 90, No 40, cols 241-80) the Home Secretary, Mr Douglas Hurd, said that the Bill provided a new weapon in the Government's fight against drug misuse. Outlining the Government's strategy and the action taken so far, Mr Hurd said that both supply and demand had to be tackled. On the supply side the key tasks were international co-operation, effective enforcement and deterrence. Britain had for many years worked energetically with others to reduce supplies of drugs from abroad. Last October further grants were announced to help reduce drug production and trafficking which were directed particularly at opium poppy cultivation in Pakistan and cocaine production in Latin America (see p 323, 1985). Both the Customs and the police were directing substantially increased resources on drug traffickers; the number of specialist customs investigators had doubled since 1979 and was being increased further and a national drugs intelligence co-ordinator had been appointed to promote co-operation between the Customs and the police.

On the demand side up to £8 million had been set aside for national prevention campaigns which included television advertising, posters, leaflets for parents, videos for professional staff and young people, and action in schools. Extra resources had

been provided to expand treatment and rehabilitation services for drug misusers, including a further £5 million a year through the health authorities from April.

It was fair to claim that this strategy was producing results. In 1985 Customs seized drugs worth a record £107 million and smashed more than 70 rings. Police seizures had also risen rapidly and so had convictions for drug trafficking offences. An independent evaluation of the Government's prevention policy suggested that it had made young people more aware of the harmful effects of drugs such as heroin, and had stiffened their resistance to them.

These were encouraging signs but the situation remained serious, Mr Hurd said. It was likely that the problem in Britain would continue to get worse before it got better. The world was awash with drugs and there could be an increase in the number of traffickers and misusers. Price and purity levels could be expected to remain fairly static. The number of seizures and arrests were likely to increase as the efforts and effectiveness of the police and Customs continued to improve. Heroin would continue to be the main problem and there were signs that as Pakistan had more success in dealing with traffickers the source for smuggling heroin into Britain was shifting to its neighbours in southwest Asia. The cocaine explosion which some commentators had forecast had not materialised but it was necessary to remain alert in view of the massive quantities being produced in Latin America. The scale of illegal manufacture and import of amphetamines which were widely available on the streets was also a cause for concern. Fortunately the 'designer' and synthetic drugs which had appeared in the United States were still almost unknown in Britain although LSD was becoming more common.

The Bill fitted firmly into the Government's strategy; by attacking the profits made from drug trafficking it was intended to make it much less attractive to enter the trade. It was designed to help guard against the possibility that the profits from one trafficking operation would be used to finance others and, not least, to remove the sense of injury which people were bound to feel at the idea of traffickers, who may have ruined their children's lives, having the benefits of the profits they had made.

Mr Hurd said that the Bill dealt only with drug trafficking offences and not with other profitable types of crime. The report of the Howard League committee, from which many of the ideas in the Bill had been taken, had made recommendations which it believed could be generally applied. But the Government would want to give further consideration to extending the Bill's provisions to other offences.

The Bill was needed because the forfeiture powers in existing law had proved inadequate. The courts could not order the forfeiture of the proceeds of an offence once they had been converted into another asset such as a house, stocks and shares or valuables of any sort. The Bill would provide powers for the courts to confiscate proceeds even after they had been converted into some other type of asset; it would provide for the restraint of a defendant's property to prevent him or her from disposing of it before the end of the trial; and it would allow property in another person's name to be confiscated also. Powers would be needed to chase the proceeds beyond the boundaries of the United Kingdom, and the Government would therefore seek the widest possible range of agreements on mutual enforcement with other countries.

Opposition Views

Mr Robin Corbett, an official Opposition spokesman on home affairs, said that his party had no wish to delay or impede the Bill. The explosion in drug smuggling and addiction during the last four or five years was putting a generation of young people at risk and doing great social damage. Draconian action was demanded against those who made fortunes out of this destructive trade. He pointed out, however, that drug traffickers might be involved in a range of criminal activities and it might be difficult to establish which profit had come from which activity. It would also be possible for someone to be convicted of the handling offence while the trafficker escaped conviction.

Mr Alex Carlile, Liberal Party spokesman on home affairs, said that it was right, on balance, to enact the Bill because of the seriousnes of the problem, although he had some misgivings about it. He hoped that courts would ensure that all the ill-gotten gains of the trafficker would be taken and not just those that formed part of the indictment. He also thought that the power to freeze assets should be available in the course of an inquiry and not only after the arrest of a defendant. Some of the powers the Bill would give to the police and courts were quite alarming and could only be justified by the seriousness of the crimes concerned.

[For further information see COI reference pamphlet *The Prevention and Treatment of Drug Misuse in Britain*, No 270/85.]

Social Security Bill

The Social Security Bill, which provides for reforms in Britain's social security system designed to reduce its increasing cost and complexity and to bring about a simpler and more effective benefit structure, was given a second reading in the House of Commons on 28 January. The main provisions of the Bill include new arrangements to encourage personal and occupational pension schemes; the modification of the State Earnings-related Pension Scheme; the introduction of a new system of income-related benefits to replace family income supplement, supplementary benefit and housing benefit; and the creation of a social fund to provide extra help at times of special need.

The Bill gives effect to the Government's proposals for the reform of social security outlined in a White Paper published in December 1985[1] and debated in the House of Commons on 16 December. It was drawn up following four separate government reviews, begun in 1983, of specific aspects of the social security system, namely: provision for retirement, housing benefits, the supplementary benefit scheme and benefits

[1]See article on pp 23-5. This has been offprinted as COI reference paper *Social Security in Britain: The 1985 White Paper*, No 275/86.

for children and young people (see pp 142-3, 1984). It was given a second reading by 278 votes to 201 (*Hansard*, Vol 90, No 45, cols 819-81). The Bill's main provisions, which reflect the considerations discussed in the White Paper, are described below.

Retirement Pensions

The Bill would give all employees the right to choose a personal pension; rather than staying in their employer's pension scheme or fully in the State Earnings-related Pension Scheme (SERPS). Personal pensions would be contracted out of the state scheme provided that a minimum contribution was made to them, the level of which would be the difference between the full and the contracted-out rates of National Insurance contribution ('the rebate'). People would be able to choose from a wide range of personal pension schemes available from banks, building societies, unit trusts and insurers, and when they had made their choice, the minimum contribution would be paid by the Department of Health and Social Security (DHSS) to the personal pension provider. In addition, from 1988 to 1993, an extra 2 per cent of the earnings on which the rebate is based would be added to the minimum contribution by the DHSS, as a special incentive, to ensure that no extra burdens fall on employers from people choosing personal pensions.

Before a personal pension scheme could be contracted out, it would have to be approved by the Occupational Pensions Board, thus enabling the Board to satisfy itself that bodies providing personal pensions were covered by the necessary regulatory framework to ensure proper investor protection. Personal pension schemes would be subject to regulations to protect investors and to ensure that the proceeds of minimum contributions were used to provide an annuity at retirement or benefits for widows and widowers. People taking personal pensions would on retirement be treated as if they had the same guaranteed minimum pension as anyone else in a contracted-out scheme, an amount equal to the guaranteed minimum pension being deducted from their state earnings-related pension.

Under the Bill, occupational pension schemes based on a guaranteed level of contribution ('money purchase' schemes) could be contracted out of the state scheme. This represents a change from present arrangements, which only allow schemes based on the open-ended promise of a level of benefit to contract out. The minimum level of contribution required for the scheme to be contracted out would be the same as the contracted-out rebate. Similar rules for approval by the Board to those for personal pensions would apply, ensuring investor protection for the members of money purchase schemes, who would also be treated on retirement as if they had a guaranteed minimum pension.

A further simplification to contracting out is provided by another clause in the Bill which reduces the complex conditions which salary-related pension schemes have to satisfy before they can be contracted out. In future, the basic test would be that schemes should provide guaranteed minimum pensions for members and surviving spouses, dispensing with the complex 'requisite benefits' tests which prescribe the relationship of contracted-out pensions to earnings.

Salary-related contracted-out schemes would base guaranteed minimum pensions from 1988-89 onwards on 20 per cent of relevant earnings rather than 25 per cent, as now. This follows the changes to state earnings-related pensions which would take effect from that date and preserves the broad equivalence that has always existed between guaranteed minimum pensions and the additional pension from the state scheme. Contracted-out schemes would also be responsible for inflation-proofing guaranteed minimum pensions earned from 1988-89 by up to 3 per cent a year once they were in payment. At present, they are revalued up to the time of award, but full inflation-proofing is undertaken through the State Earnings-related Scheme after that. Schemes would be compensated fully through the contracted-out rebate for taking on this extra commitment; and if inflation exceeded the 3 per cent ceiling, the difference would still be met through the state scheme.

The Bill would require all schemes to preserve benefits, rather than refunding contributions. for people who leave after two years' membership (at present this requirement only applies after five years). This would ensure that more people keep their pension savings invested for their retirement. (The 1985 Social Security Act gives them the right to a transfer value.)

There are further clauses in the Bill to strengthen the rights of members of occupational and personal pension schemes, which would give all members the right to pay extra voluntary contributions to boost their pension rights. They would also enable regulations to be made to control advertising and publicity for pensions.

State Earnings-related Pension Scheme

In order to reduce state pension costs in the next century, state earnings-related pension rights would be based on a lifetime's average revalued earnings since 1978, rather than on the best 20 years, as now. Rights on earnings between 1978-79 and 1987-88 would be based on 25 per cent of those earnings; rights on earnings from 1988-89 on would accrue at 20 per cent. These changes would not apply to the pensions of anyone retiring this century, and for those due to retire early next century the Bill would give transitional protection from the full effects of the move from 25 per cent to 20 per cent and would make special provision to protect the state earnings-related pensions of people unable to work because they were looking after a child or a disabled person or were themselves disabled. The Bill would also enable widows and older widowers to inherit up to half their spouse's state pension, rather than all of it, as now, although this change would not affect anyone widowed this century.

Income-related Benefits

The Bill would establish three income-related benefits – income support, family credit and housing benefit – on a common basis, making them more coherent than the current provisions for supplementary benefit, family income supplement and housing benefit. In particular, a similar basis of assessment would be used for all three benefits. The Bill describes the way in which the income-related benefits would be calculated taking into account the capital and income of claimants and other members of their family.

Income Support

Income support would replace supplementary benefit for people aged 16 and over not in regular employment whose incomes did not exceed a prescribed amount. The scheme would make up the difference between a person's income and the prescribed amount, which would vary according to people's circumstances. This would enable set allowances, or premiums, over and above the basic rate of income support to be paid to families (including single parents), pensioners and disabled people. The intention is that help given through income support should be directed at meeting the general needs of particular groups.

Family Credit

Family credit would replace family income supplement and would be paid to low-income working families. The benefit would be based on a maximum weekly amount (reflecting the number and ages of children in the family), which would be reduced if net earnings exceeded a prescribed amount. Since net earnings would be the basis of assessment, the worst of the 'poverty trap', where the effects of a pay rise can be wiped out, would be eliminated.

The Bill provides for family credit to be paid through employers. Payment through the wage packet, offset against National Insurance and tax, would be a step towards closer co-operation between the social security and tax systems. Employers would recover the money they paid out in family credit from their National Insurance contributions.

Housing Benefit

Housing benefit would replace the existing benefit but its purpose would remain unchanged – to give help with rent and rates to people on low incomes. Clauses in the Bill would re-enact the current housing benefit legislation, with modifications to achieve improvements and simplifications. Much of the scheme, as now, would be determined by regulations; but the regulation-making powers in the Bill are considerably more specific than those which now exist.

Social Fund

The Bill provides for the setting up of a social fund out of which payments might be made for maternity and funeral costs and for other needs. The scheme would be operated locally, subject to the directions and guidance issued by the Secretary of State; and decisions would be subject to review. Payments other than those for funeral and maternity costs might be recoverable from applicants, but the intention would be that payments for community care should ordinarily be in the form of grants.

The intention of the social fund would be that it should provide quick and flexible help for special emergency needs which would not be met through income support. Specially trained social fund officers would operate the scheme.

Widow's Benefit

The Bill provides for the payment of a lump sum of £1,000 to a widow under the National Insurance scheme. The payment, which would be tax-free, would be made immediately on bereavement and would replace the widow's allowance payable for the first 26 weeks of widowhood. People entitled to widow's pension or widowed mother's allowance would get these immediately, instead of after 26 weeks, and the age-related reduced rates of widow's pension would be payable between the ages of 45 and 55, rather than 40 and 50, as now.

Other National Insurance Benefits

The Bill abolishes maternity grant, child's special allowance and death grant. The maternity and death grants, which have been at a wholly inadequate level for years, would be replaced by payments from the social fund to people on low incomes.

The Bill also removes the provision for paying reduced rates of short-term benefits where the contribution conditions are not fully satisfied; makes modifications to provisions that disqualify people engaged in trade disputes from unemployment benefit; and clarifies the law to ensure that guardian's allowance continues to be paid to people who subsequently adopt the child.

Common Provisions

The Bill removes anomalies by introducing common provisions to relate to a wide range of social security benefits to replace the different rules which at present apply to benefits. It also provides new powers to make regulations about claims and payments, adjudication of claims, recovery of benefit overpayments, offences, inspectors' powers and disclosure of information by the Inland Revenue.

Education and Training for Industry

The range of education and training opportunities for 16- to 19-year-olds, the challenges facing the education and training system and the Government's objectives for a better partnership between education and industry were the major themes of a speech by the Minister of State for Education and Science, Mr Chris Patten.

Speaking on 15 January to the Industrial Society, Mr Patten stressed the increasing importance of qualifications for today's school-leavers. The future labour market would leave the unskilled at a desperate disadvantage, he said; the 16 to 19 period should be regarded as preparation either for entry into higher education or for employment as an adult with at least some form of relevant qualification. 'The idea that it is appropriate for anyone to leave school at 16 and to take a deep, sudden and permanent plunge into the labour market without further recourse to education and training should already have gone for good.'

Options at 16 to 19

Young people now had an unprecedented range of education and training options to choose from and no school-leaver should be forced to contemplate the alternatives of employment without any futher education and training, or unemployment. Options for 16-year-olds included, for the more able – particularly those with their sights on higher education – the

obvious, though not the only choice, of A-levels (Advanced level of the General Certificate of Education). It was unfortunate, Mr Patten said, that A-level studies could be, and often were, in a rather narrow area of the curriculum. For this reason, the Government wished to broaden and enrich such studies with the help of AS (Advanced Supplementary – see p 135, 1985) levels, with no diminution of the standards required for this type of study.

For those who wanted to pursue a course with a more practical bias, combining training and work experience with education, there was a vast range of courses leading to the vocational qualifications of what had traditionally been known as the further education examining bodies – principally the City and Guilds of London Institute, the Business and Technician Education Council, and the Royal Society of Arts. These too provided a route to higher education and advanced professional qualifications and should be given greater recognition within the education system and by employers.

For those who had no particular option in view, or who lacked the qualifications for immediate entry to a vocational programme, and for whom A and AS levels were not suitable, the Government had introduced the Certificate of Pre-Vocational Education – the CPVE, which enabled students to develop their general education in a broad vocational context and to prepare for employment or further study. In particular, it provided an alternative to courses of repeat O-levels (Ordinary level of the General Certificate of Education). The option of further subject-based study would remain under the new General Certificate of Secondary Education arrangements (due to be introduced in the autumn – see p 135, 1985), but it was hoped that the non A-level student wishing to continue in full-time general education would increasingly come to consider the opportunity offered by the CPVE.

The Youth Training Scheme provided those not motivated to continue their full-time education with the chance to gain work experience, training and education. It was a priority of the new two-year scheme – to be introduced from April 1986 (see pp 128 and 239-40, 1985) – that it should provide participants with the opportunity to gain recognised qualifications, or credits towards such qualifications.

Given the wide range of opportunities, suitably differentiated according to aptitudes and abilities, it was inevitable that the choice facing the 16-year-old was not straightforward and would need careful thought and thorough preparation well before the end of the fifth year. Careers education and guidance was therefore crucial if the most appropriate choice was to be made. Mr Patten urged all schools to make full use of the careers service and to give due priority to careers education and guidance. Local authorities should make available information, in a suitably digestible form, about all post-16 courses. With this sort of guidance, the interested 16-year-old and his or her parents should be perfectly capable of understanding all the available options.

There was now little distinction to be drawn between provision for education and training made in schools and that made in further education, Mr Patten said. The overlap between the two sectors was already considerable and was likely to increase. The introduction of the CPVE into both schools and further education was likely further to blur the distinction between the two sectors. Provision for the 16 to 19 age group was thus best viewed as a whole, across both the schools and further education sectors, as they faced similar challenges.

Among the most important challenges currently facing the system was the fact that more of the 16 to 19 age group wanted to participate in some form of education and training, part time or full time. At the same time, the overall size of the age group would fall by one-third between 1981 and 1993. These two factors would have profound consequences for schools and colleges, Mr Patten said: 'School and college managers and local education authority planners need to think carefully about their future market if they are to be in a position to respond effectively and efficiently to its demands.'

Links with Industry

One of the best ways in which the performance of the further education system might be consolidated and improved was in the development of partnerships, not only between central and local government, the colleges, and students and their parents, but also with employers in industry and elsewhere.

The key relationship was the local one between individual colleges and employers. The College-Employer Links projects, sponsored by the Department of Education and Science, had revealed a reservoir of goodwill on both sides, although naturally there were areas for improvement. From the college end there needed to be more flexibility, for example, in terms of the organisation of timetables and the college year, and speed of response. Colleges needed to be more willing to go out and market their wares, and to adapt their provision to the requirements of the customer. Many could become more efficient; some lecturers need to bring up to date their professional and technical skills; and all students needed more exposure, on vocational courses, to the commercial and industrial application of information technology.

These and other improvements, however, depended on the co-operation of employers, who need to make time to involve themselves in the work of colleges and to articulate their needs, always remembering that colleges had a wider responsibility to the long-term needs of individual students as well as to the immediate requirements of particular firms. It was difficult for employers to come forward collectively in a particular locality and express a single uniform view, and the rôle of the Manpower Services Commission could be very useful in this respect. By acting as a proxy for employers, it could focus the demand side of the equation and could also ensure reasonable continuity and development over the longer term.

One of the most important purposes, if not the most important purpose, of Industry Year (see p 56), was to bring industry and education closer together, Mr Patten said. There had been in Britain something of a vicious circle within which both sides had undervalued the other's worth. Education had viewed industry as philistine and industry had viewed education as irrelevant or worse. Employers, for their part, should show by providing financial support that they seriously valued a properly trained and educated workforce. In conclusion, Mr Patten expressed the hope that 1986 would be the year of breaking into the virtuous circle of industry and education treating one another as vital elements in a single partnership – a virtuous circle in

which education helped to provide the skilled manpower to increase the profitability of industry which could then in turn create and release more resources to improve the quality and quantity of education, developing thereby a culture of continual self and collective improvement and enterprise, which was both civilised and commercially successful.

Crowd Safety and Control at Sports Grounds

Safety standards at all rugby, cricket and football grounds holding more than 10,000 spectators are to be strengthened following the Government's acceptance of the main recommendations of the Final Report of the Committee of Inquiry into Crowd Safety and Control at Sports Grounds, published in January.[1] Recommendations made by the Committee on measures to deal with disorderly behaviour at football matches will largely be met by the Public Order Bill at present before Parliament.

The Committee of Inquiry, chaired by Mr Justice Popplewell, was appointed by the Government in May 1985 following the fire on 11 May at Bradford City Football Ground in which 56 people died, and the riot the same day at Birmingham City Football Ground in which a boy died. It was asked to inquire into the operation of the Safety of Sports Grounds Act 1975 and to recommend what, if any, further steps should be taken to improve both crowd safety and control. The inquiry was later asked also to take account of lessons arising from the events at the European Cup Final at Brussels on 29 May when 38 people died (see pp 209-11, 1985). The Inquiry's interim report,[2] containing recommendations arising from the immediate lessons of Bradford and Birmingham, was published in July, so that safety levels could be improved quickly and in time for the start of the new football season in August 1985 (see p 283, 1985).

The Popplewell Inquiry: Final Report

In an introduction to the report, Mr Justice Popplewell says that the paramount need is to protect the public by improving safety standards and thereby restoring confidence among those who attend sporting events. The report emphasises that effective steps should be taken quickly and stresses the responsibilities of sports grounds management to ensure that their grounds are safe for spectators.

Among the conclusions of the inquiry, which cover both safety and crowd control, is the recommendation that all sports grounds and stadia with accommodation for over 10,000 spectators, where association football, rugby and cricket are played, should require a safety certificate from the local authority and as such, be designated under the Safety of Sports Grounds Act 1975. Those grounds and stadia, including indoor facilities, not already designated under the Act (because their capacity is below 10,000 or where it is over 10,000 but sports other than those specified are played), but capable of holding over 500 spectators, should be designated under the Fire Precautions Act 1971 as premises requiring a fire certificate. Mr Justice Popplewell also recommends that a single authority should be given the responsibility for ensuring structural safety at undesignated grounds and that fire and local authorities should be given more power under the two Acts to enforce safety controls, including the power to issue a prohibition notice. Furthermore, local authorities should inspect premises annually prior to reissuing a safety certificate, which they should also have the power to revoke, if necessary.

The report calls for increased police powers of search and arrest to deal with hooliganism, including the creation of a new offence of disorderly conduct at sports grounds. In response to representations from football clubs on the subject of loss of revenue from the banning of alcohol in sports grounds, the inquiry concludes that there should be a review of the provisions of the Sporting Events (Control of Alcohol etc) Act 1985 in relation to executive boxes (see p 243, 1985). Finally, the report says, consideration should be given to some form of membership scheme for Football League clubs in England and Wales.

Home Secretary's Statement

In a statement to the House of Commons on 16 January (*Hansard*, Vol 89, No 37, cols 1227-9) the Home Secretary, Mr Douglas Hurd, welcomed the report and said that the Government recognised the urgent need for improved safety measures at sports grounds. It accepted the report's recommendation that all those sports grounds and stadia in England and Wales with accommodation for more than 10,000 spectators, where association football, rugby league, rugby union and cricket were played and which were not already designated under the Safety of Sports Grounds Act should be so designated. Consultations would begin immediately with the sports authorities and organisations concerned with a view to introducing the necessary orders as quickly as possible, and certainly by the summer of 1986. In Scotland, an order designating stadia of clubs with accommodation for more than 10,000 spectators in the First and Second Divisions of the Scottish Football League would be introduced as soon as practicable.

The Government also accepted the principle of the recommendations that safety controls should be extended to all sports grounds and stadia with stands for over 500 spectators, including indoor sports facilities, where adequate controls did not already exist. More facts were needed, however, said Mr Hurd, since at present centrally held information was limited to stadia and grounds with accommodation for 5,000 or more, and to indoor premises with an overall capacity of more than 1,000. The relevant local and fire authorities in England, Wales and Scotland would be invited to inspect and report upon stands and premises not previously inspected. Powers were immediately available under both the Safety of Sports Grounds Act and the Fire Precautions Act to deal with any exceptional hazard found in the course of the inspection. Similarly,

[1] *Committee of Inquiry into Crowd Safety and Control at Sports Grounds. Final Report.* Cmnd 9710. HMSO, £6·90. ISBN 0 10 197100 1.

[2] *Committee of Inquiry into Crowd Safety and Control at Sports Grounds. Interim Report.* Cmnd 9585. HMSO, £9·10. ISBN 0 10 195850 1.

chief fire officers and firemasters would be invited to keep under review the places they had inspected under previous initiatives with the object of maintaining safety standards at those places. Once the reports had been considered, the Government would issue a consultative document and propose ways of achieving the objectives of the inquiry's final report, fitting this into the review already under way on the future of the Fire Precautions Act. Further legislation might well prove necessary, but there would be no avoidable risk meanwhile because any necessary emergency action could be taken under existing powers.

Crowd Control

On the subject of crowd control, Mr Hurd said that the Police and Criminal Evidence Act 1984, which had come into force on 1 January (see p 5), had already extended the police powers of search and arrest in ways which would help them to deal with troublemakers at football grounds. Similarly, on disorderly conduct, the Public Order Bill (given a second reading in the House of Commons on 13 January – see p 33) sought to create a new offence which would cover hooliganism in football grounds as elsewhere. Mr Hurd said that he would examine the report's recommendations for further police powers and a wider offence of disorderly conduct when he had seen the practical effects of the recent legislation. The Government had already taken a number of steps to deal with forms of misconduct about which Mr Justice Popplewell expressed particular concern. The Public Order Bill would implement a recommendation in his interim report that the possession of smoke-bombs and similar devices at sports grounds be made an offence. Action had also been taken to ban some other items which might be used as missiles. The Sporting Events (Control of Alcohol etc) Act (see pp 243-4, 1985) had made it an offence to be in possession of a drinks can or bottle in any area of grounds from which the pitch could be viewed directly.

During the parliamentary proceedings on the legislation, representations had been made about its effect on the revenue which clubs derived from the sale of alcohol in executive boxes. The Government had undertaken to monitor the situation and had received information from the Football League and representations from other sources. More information had been requested from the football authorities and would be carefully considered in the light of the inquiry's recommendations, before it was decided whether to allow some relaxation of the controls on alcohol in executive boxes.

Membership Cards

The Government fully endorsed the report's recommendations on membership cards for football clubs. The Public Order Bill contained provisions to enable the courts to ban convicted football hooligans from attending matches, reflecting the Government's determination to do everything possible to keep troublemakers away from football grounds and to restore the good name of British football. It needed to be matched by equally determined action by the football clubs and the football authorities, who had already made some progress on recognising the value of an effective membership card system.

Other Measures Against Hooliganism

Apart from the measures referred to in the Home Secretary's statement, other steps are being taken to combat football violence. These include provision by the Football Trust of closed-circuit television for all grounds in the First and Second Divisions (25 clubs have been equipped to date, while nine out of the ten clubs in the Scottish Premier Division also have it or are having it installed); three experimental 'hoolivans', Home Office photographic vehicles capable of taking high-quality still and moving pictures, together with other evidence-gathering cameras; and amendment of league ground regulations so as to ban anyone bringing in cans, bottles, smoke-bombs or fireworks. In addition, anyone refusing to be searched by the police will not be admitted to league grounds.

Shorter Note

NEW HEART TRANSPLANT CENTRE

A new heart transplant centre is to be opened in Newcastle following the Government's announcement of increased funding of £900,000 in 1986-87 for the heart transplant programme. This will bring the total allocation to £2·5 million. (A similar sum is being allocated to the liver transplant programme.)

Giving details of the new arrangements on 16 January, the Secretary of State for Social Services, Mr Norman Fowler, said that Newcastle's Freeman Hospital would now join with Papworth and Harefield Hospitals as Britain's third heart transplant centre. A study set up by the Department of Health and Social Security to evaluate the costs and benefits of heart transplantation had shown that the cost of each operation was falling and the benefits, measured in terms of increased life expectancy and improved quality of life, were rising. Furthermore, the Supra Regional Services Advisory Group (which advises the Government on the planning of services and allocation of funds on a national rather than a regional basis), asked to report on how the development of the heart transplant programme should best be advanced within the National Health Service, had recommended that the programme be expanded as resources became available and that a third centre be established.

Source: Department of Health and Social Security press release No 86/18, 16.1.86.

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